PEOPLES FINANCIAL CORP /MS/
Form 10-K
March 18, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014 Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi	64-0709834
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Lameuse and Howard Avenues, Biloxi, Mississippi 39533	228-435-5511
(Address of principal executive offices) (Zip code)	(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12 (g) of the Act:

Common, $1.00 Par Value

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ____ NO_X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ____ NO __X__

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES __X__ NO ____

Indicate by check mark whether the registrant has submitted electronically and posted on its web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No _____

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. _X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer ____ Non-Accelerated filer ___ Smaller reporting company X_

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ____ NO _X

At June 30, 2014, the aggregate market value of the registrant s voting stock held by non-affiliates was approximately $63,684,000.

On February 20, 2015, the registrant had outstanding 5,123,186 shares of common stock, par value of $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement issued in connection with the Annual Meeting of Shareholders to be held April 22, 2015, are incorporated by reference into Part III of this report.

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS

BACKGROUND AND CURRENT OPERATIONS

General

Peoples Financial Corporation (the Company) was organized as a one bank holding company in 1985. The Company is headquartered in Biloxi, Mississippi. At December 31, 2014, the Company operated in the state of Mississippi through its wholly-owned subsidiary, The Peoples Bank, Biloxi, Mississippi (the Bank). The Company is engaged, through this subsidiary, in the banking business. The Bank is the Company s principal asset and primary source of revenue.

The Main Office, operations center and asset management and trust services of the Bank are located in downtown Biloxi, MS. At December 31, 2014, the Bank also had 17 branches located throughout Harrison, Hancock, Jackson and Stone Counties. The Bank has automated teller machines (ATM) at its Main Office, all branch locations and at numerous non-proprietary locations.

The Bank Subsidiary

The Company s wholly-owned bank subsidiary is The Peoples Bank, which was originally chartered in 1896 in Biloxi, Mississippi. The Bank is a state chartered bank whose deposits are insured under the Federal Deposit Insurance Act. The Bank is not a member of the Federal Reserve System. The legal name of the Bank was changed to The Peoples Bank, Biloxi, Mississippi, during 1991.

Most of the Bank s business originates from Harrison, Hancock, Stone and Jackson Counties in Mississippi; however, some business is obtained from other counties in southern Mississippi.

Nonbank Subsidiary

In 1985, PFC Service Corp. (PFC) was chartered and began operations as the second wholly-owned subsidiary of Peoples Financial Corporation. The purpose of PFC was principally the leasing of automobiles and equipment. PFC is inactive at this time.

Products And Services

The Bank currently offers a variety of services to individuals and small to middle market businesses within its trade area. The Company s trade area is defined as those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the bank subsidiary s three most outlying locations.

The Bank s primary lending focus is to offer business, commercial, real estate, construction, personal and installment loans, with an emphasis on commercial lending. The Bank s exposure for out of area, residential and land development, construction and commercial real estate loans as well as concentrations in the hotel/motel and gaming industries are monitored by the Company. Each loan officer has board approved lending limits on the principal amount of secured and unsecured loans that can be approved for a single borrower without prior approval of the senior credit committee. All loans, however, must meet the credit underwriting standards and loan policies of the Bank.

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Deposit services include interest bearing and non-interest bearing checking accounts, savings accounts, certificates of deposit, and IRA accounts. The Bank also offers a non-deposit funds management account, which is not insured by the Federal Deposit Insurance Corporation (FDIC). The Bank generally provides depository accounts to individuals; small and middle market businesses; and state, county and local government entities in its trade area at interest rates consistent with market conditions.

The Bank s Asset Management and Trust Services Department offers personal trust, agencies and estate services, including living and testamentary trusts, executorships, guardianships, and conservatorships. Benefit accounts maintained by the Department primarily include self-directed individual retirement accounts. Escrow management, stock transfer and bond paying agency accounts are available to corporate customers.

The Bank also offers a variety of other services including safe deposit box rental, wire transfer services, night drop facilities, collection services, cash management and Internet banking. The Bank has 41 ATMs at its branch locations and other off-site, non-proprietary locations, providing bank customers access to their depository accounts. The Bank is a member of the PULSE network.

There has been no significant change in the kind of services offered by the Bank during the last three fiscal years.

Customers

The Bank has a large number of customers acquired over a period of many years and is not dependent upon a single customer or upon a few customers. The Bank also provides services to customers representing a wide variety of industries including seafood, retail, hospitality, hotel/motel, gaming and construction. While the Company has pursued external growth strategies on a limited basis, its primary focus has been on internal growth by the Bank through the establishment of new branch locations and an emphasis on strong customer relationships.

Employees

At December 31, 2014, the Bank employed 164 full-time employees and 12 part-time employees. The Company has no employees who are not employees of the bank subsidiary. Through the Bank, employees receive salaries and benefits, which include 401(k) and ESOP plans, cafeteria plan, and life, health and disability insurance. The Company considers its relationship with its employees to be good.

Competition

The Bank is in direct competition with numerous local and regional commercial banks as well as other non-bank institutions. Interest rates paid and charged on deposits and loans are the primary competitive factors within the Bank s trade area. The Bank also competes for deposits and loans with insurance companies, finance companies, brokerage houses and credit unions. The principal

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competitive factors in the markets for deposits and loans are interest rates paid and charged. The Company also competes through efficiency, quality of customer service, the range of services and products it provides, the convenience of its branch and ATM locations and the accessibility of its staff. The Bank intends to continue its strategy of being a local, community bank offering traditional bank services and providing quality service in its local trade area.

Miscellaneous

The Bank holds no patents, licenses (other than licenses required to be obtained from appropriate bank regulatory agencies), franchises or concessions.

The Bank has not engaged in any research activities relating to the development of new services or the improvement of existing services except in the normal course of its business activities. The Bank presently has no plans for any new line of business requiring the investment of a material amount of total assets.

Available Information

The Company maintains an internet website at www.thepeoples.com. The Company s Annual Report to Shareholders is available on the Company s website. Also available through the website is a link to the Company s filings with the Securities and Exchange Commission (SEC). Information on the Company s website is not incorporated into this Annual Report on Form 10-K or the Company s other securities filings and is not part of them.

REGULATION AND SUPERVISION

General

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System. The Company is required to file annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of the Company.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- it may acquire direct or indirect ownership or control of any voting shares of any other bank holding company if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the other bank holding company;

- it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;

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- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or

- it may merge or consolidate with any other bank holding company.

The Bank Holding Company Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the performance under the Community Reinvestment Act of 1977, both of which are discussed below in more detail.

Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Exchange Act of 1934, as amended (Exchange Act); or

- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

The Company s common stock is registered under Section 12 of the Exchange Act. The regulations provide a procedure for challenging rebuttable presumptions of control.

The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries and acquiring or retaining direct or indirect control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

The Bank is incorporated under the laws of the State of Mississippi and is subject to the applicable provisions of Mississippi banking laws and the laws of the various states in which it operates, as well as federal law. The Bank is subject to the supervision of the Mississippi Department of Banking and Consumer Finance and to regular examinations by that department. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) and, therefore, the Bank is subject to the provisions of the Federal Deposit Insurance Act and to examination by the FDIC.

Federal Reserve policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) codifies this policy as a statutory requirement. This support may be required by the Federal Reserve at times when the Company might otherwise determine not to provide it. In addition, if a bank holding company commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the Federal Reserve s invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment, ahead of other creditors of the bank holding company.

In addition, the Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under federal securities laws. The common stock of the Company is listed on the NASDAQ capital market exchange, such listing subjecting the Company to compliance with the exchange s requirements with respect to reporting and other rules and regulations.

The Dodd-Frank Act

The Dodd-Frank Act, enacted in 2010, significantly restructured financial regulation in the United States, including through the creation of a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions intended to strengthen the financial services sector.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies, including financial institutions, with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous implementing regulations, many of which have not yet been issued.

In January 2013, the CFPB issued final regulations governing mainly consumer mortgage lending. One rule imposes additional requirements on lenders, including rules designed to require lenders to ensure borrowers ability to repay their mortgage. The CFPB also finalized a rule on escrow accounts for higher priced mortgage loans and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. The CFPB also issued final rules implementing provisions of the Dodd-

Frank Act that relate to mortgage servicing. In November 2013, the CFPB issued a final rule on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act, compliance with which is required by August 1, 2015.

The Dodd-Frank Act authorizes national and state banks to establish de novo branches in other states to the same extent as a bank chartered by that state would be so permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are now able to enter new markets more freely.

Recently, the CFPB and banking regulatory agencies have increasingly used a general consumer protection statute to address unethical or otherwise bad business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the unfair or deceptive acts or practices (UDAP) law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to unfair, deceptive or abusive acts or practices, which has been delegated to the CFPB for supervision.

Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years. The overall financial impact on the Company and its subsidiaries or the financial services industry generally cannot be anticipated at this time.

Dividends

The Company is a legal entity that is separate and distinct from its subsidiaries. The primary source of funds for dividends paid to the Company s shareholders are dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the Company without regulatory approval. Under Mississippi law, the Bank must obtain non-objection of the Commissioner of the Mississippi Department of Banking and Consumer Finance prior to paying any dividend on the Bank s common stock. In addition, the Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4, on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve s view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position, or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends.

Capital

The Federal Reserve has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. The risk-based capital ratio guidelines establish a systematic analytical framework that:

- makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations;
- takes off-balance sheet exposures into explicit account in assessing capital adequacy; and
- minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents capital divided by total risk-weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements promulgated by the FDIC.

Generally, under the applicable guidelines, a financial institution s capital is divided into two tiers. Total capital is Tier 1 plus Tier 2 capital. These two tiers are:

- Tier 1, or core capital, that includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets; and
- Tier 2, or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.

The Federal Reserve and the other federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage-servicing rights, non-mortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in Total capital cannot exceed 100% of an institution s Tier 1 capital.

Under the risk-based capital guidelines existing prior to January 1, 2015, financial institutions were required to maintain a risk-based ratio of 8%, with 4% being Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when they believe an institution s circumstances warrant.

Under the leverage guidelines existing prior to January 1, 2015, financial institutions are required to maintain a leverage ratio of at least 3%. The minimum ratio is applicable only to financial institutions that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate risk exposure, and the highest regulatory rating. Financial institutions not meeting these criteria are required to maintain a minimum Tier 1 leverage ratio of 4%.

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The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under Prompt Corrective Action as applicable to under-capitalized institutions.

New Capital Rules

On July 2, 2013, the Federal Reserve approved the final rule for BASEL III capital requirements for all bank holding companies charted in the United States. The rule was subsequently approved by the FDIC on July 9, 2013 and made applicable to the Bank. The rule implements in the United States certain of the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The major provisions of the new rule applicable to the Company and the Bank are:

The new rule implements higher minimum capital requirements, includes a new common equity Tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. These enhancements both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the United States banking system to deal with adverse economic conditions.

The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0% which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%.

The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity Tier 1 capital.

Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk weighted assets. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016. A banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds.

The new rule also increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

The transition period for implementation of Basel III is January 1, 2015, through December 31, 2018.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991, known as FDICIA, requires federal banking regulatory authorities to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

An institution is deemed to be:

well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater (8% after January 1, 2015), a Tier 1 leverage ratio of 5% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 6.5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;

adequately-capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater (6% after January 1, 2015), generally, a Tier 1 leverage ratio of 4% or greater, and, after January 1, 2015, a common equity Tier 1 capital ratio of 4.5% or greater, and the institution does not meet the definition of a well-capitalized institution;

under-capitalized if it does not meet one or more of the adequately-capitalized tests;

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significantly under-capitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% (less than 4% after January 1, 2015), a Tier 1 leverage ratio that is less than 3%, and, after January 1, 2015, a common equity Tier 1 capital ratio that is less than 3%; and

critically under-capitalized if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

Throughout 2014, the Bank s regulatory capital ratios were in excess of the levels established for well-capitalized institutions.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would be under-capitalized after such payment. Under-capitalized institutions are subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

If an under-capitalized institution fails to submit an acceptable plan, it is treated as if it is significantly under-capitalized. Significantly under-capitalized institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately-capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks.

Critically under-capitalized institutions may not, beginning 60 days after becoming critically under-capitalized, make any payment of principal or interest on their subordinated debt. In addition, critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is well-capitalized and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had $5,000,000 of such brokered deposits at December 31, 2014.

Interstate Banking and Branching Legislation

Federal law allows banks to establish and operate a de novo branch in a state other than the bank s home state if the law of the state where the branch is to be located would permit establishment of the branch if the bank were chartered by that state, subject to standard regulatory review and approval requirements. Federal law also allows the Bank to acquire an existing branch in a state in which the bank is not headquartered and does not maintain a branch if the FDIC and Mississippi Banking Department approve the branch or acquisition, and if the law of the state in which the branch is located or to be located would permit the establishment of the branch if the bank were chartered by that state.

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Once a bank has established branches in a state through an interstate merger transaction or through de novo branching, the bank may then establish and acquire additional branches within that state to the same extent that a state chartered bank is allowed to establish or acquire branches within the state.

Under the Bank Holding Company Act, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank holding company or bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states have opted out of such interstate merger authority prior to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years, and subject to certain deposit market-share limitations.

FDIC Insurance

The deposits of the Bank are insured by the Deposit Insurance Fund (the DIF), which the FDIC administers. The Dodd-Frank Act permanently increased deposit insurance on most accounts to $250,000. To fund the DIF, FDIC-insured banks are required to pay deposit insurance assessments to the FDIC. For institutions like the Bank with less than $10 billion in assets, the amount of the assessment is based on its risk classification. The higher an institution s risk classification, the higher its rate of assessments (on the assumption that such institutions pose a greater risk of loss to the DIF). An institution s risk classification is assigned based on its capital levels and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances.

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The annualized assessment rate for the first quarter of fiscal 2015 is .60% of the assessment base and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. If the FDIC terminates an institution s deposit insurance, accounts insured at the time of the termination, less withdrawals, will continue to be insured for a period of six months to two years, as determined by the FDIC.

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Affiliate Transactions

The Bank is subject to Regulation W, which comprehensively implements statutory restrictions on transactions between a bank and its affiliates. Regulation W combines the Federal Reserve s interpretations and exemptions relating to Sections 23A and 23B of the Federal Reserve Act. Regulation W and Section 23A place limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Bank s affiliates are the Company and its non-bank subsidiary.

Regulation W and Section 23B prohibit, among other things, a bank from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features.

The Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving bank holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2014, the Bank had a satisfactory rating under CRA.

Patriot Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the Patriot Act), requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The Patriot Act also requires that financial institutions follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants.

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Consumer Privacy and Other Consumer Protection Laws

The Bank, like all other financial institutions, is required to maintain the privacy of its customers non-public, personal information. Such privacy requirements direct financial institutions to:

- provide notice to customers regarding privacy policies and practices;
- inform customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties; and
- give customers an option to prevent disclosure of such information to non-affiliated third parties.

Under the Fair and Accurate Credit Transactions Act of 2003, the Bank s customers may also opt out of information sharing between and among the Bank and its affiliates.

The Bank is also subject, in connection with its deposit, lending and leasing activities, to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth-in-Savings Act, the Fair Housing Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act, the Flood Protection Act, the Bank Secrecy Act, laws and regulations governing unfair, deceptive, and/or abuse acts and practices, the Servicemembers Civil Relief Act, the Housing and Economic Recovery Act, and the Credit Card Accountability Act, among others, as well as various state laws.

Incentive Compensation

In 2010, the Federal Reserve issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

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The federal banking agencies have proposed rule-making implementing provisions of the Dodd-Frank Act to prohibit incentive-based compensation plans that expose covered financial institutions to inappropriate risks. Covered financial institutions are institutions that have over $1 billion in assets and offer incentive-based compensation programs. If adopted, the proposed rules would require incentive-based compensation plans:

- to provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks;
- be compatible with effective internal controls and risk management, and
- be supported by strong corporate governance, including active and effective oversight by the organization s board of directors and appropriate policies, procedures and monitoring.

The scope and content of banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company s ability to hire, retain and motivate its key employees.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 is applicable to all companies with equity or debt securities registered under the Exchange Act. In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

Effect of Governmental Policies

The Company and the Bank are affected by the policies of regulatory authorities, including the Federal Reserve, the FDIC, and the Mississippi Department of Banking. An important function of the Federal Reserve is to regulate the national money supply. Among the instruments of monetary policy used by the Federal Reserve are: (i) purchases and sales of U.S. government and other securities in the marketplace; (ii) changes in the discount rate, which is the rate any depository institution must pay to borrow from the Federal Reserve; (iii) changes in the reserve requirements of depository institutions; and (iv) indirectly, changes in the federal funds rate, which is the rate at which depository institutions lend money to each other overnight. These instruments are intended to influence economic and monetary growth, interest rate levels, and inflation.

The monetary policies of the Federal Reserve and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so

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in the future. Because of changing conditions in the national and international economy and in the money markets, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels, loan demand, or the business and results of operations of the Company and the Bank, or whether changing economic conditions will have a positive or negative effect on operations and earnings.

Other Proposals

Bills occasionally are introduced in the United States Congress and the Mississippi State Legislature and other state legislatures, and regulations occasionally are proposed by our regulatory agencies, any of which could affect our businesses, financial results, and financial condition. Generally it cannot be predicted whether or in what form any particular proposals will be adopted or the extent to which the Company and the Bank may be affected.

Summary

The following discussion sets forth certain material elements of the regulatory framework applicable to the Company and the Bank. This discussion is a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations. Regulation of financial institutions is intended primarily for the protection of depositors, the deposit insurance fund and the banking system, and generally is not intended for the protection of shareholders. Changes in applicable laws, and their application by regulatory agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

SUPPLEMENTAL STATISTICAL INFORMATION

Schedules I-A through VII present certain statistical information regarding the Company. This information is not audited and should be read in conjunction with the Company s Consolidated Financial Statements and Notes to Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

Distribution of Assets, Liabilities and Shareholders Equity and Interest Rates and Differentials

Net Interest Income, the difference between Interest Income and Interest Expense, is the most significant component of the Company s earnings. For interest analytical purposes, Management adjusts Net Interest Income to a taxable equivalent basis using a Federal Income Tax rate of 34% in 2014, 2013 and 2012 on tax-exempt items (primarily interest on municipal securities).

Another significant statistic in the analysis of Net Interest Income is the effective interest differential, also called the net yield on earning assets. The net yield is the difference between the rate of interest earned on earning assets and the effective rate paid for all funds, non-interest bearing as well as interest bearing. Since a portion of the Bank s deposits do not bear interest, such as demand deposits, the rate paid for all funds is lower than the rate on interest bearing liabilities alone.

Recognizing the importance of interest differential to total earnings, Management places great emphasis on managing interest rate spreads. Although interest differential is affected by national, regional and local economic conditions, including the level of credit demand and interest rates, there are significant opportunities to influence interest differential through appropriate loan and investment policies which are designed to maximize the differential while maintaining sufficient liquidity and availability of incremental funds for purposes of meeting existing commitments and investment in lending and investment opportunities that may arise.

The information included in Schedule I-F presents the change in interest income and interest expense along with the reason(s) for these changes. The change attributable to volume is computed as the change in volume times the old rate. The change attributable to rate is computed as the change in rate times the old volume. The change in rate/volume is computed as the change in rate times the change in volume.

Credit Risk Management and Loan Loss Experience

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through its lending policies, credit underwriting analysis, appraisal requirements, concentration and exposure limits, loan review procedures and the diversification of its loan portfolio. Although it is not possible to predict loan losses with complete accuracy, Management constantly reviews the characteristics of the loan portfolio to determine its overall risk profile and quality.

Constant attention to the quality of the loan portfolio is achieved by the loan review process. Throughout this ongoing process, Management is advised of the condition of individual loans and of the quality profile of the entire loan portfolio. Any loan or portion thereof which is classified loss by regulatory examiners or which is determined by Management to be uncollectible because of such factors as the borrower s failure to pay interest or principal, the borrower s financial condition, economic conditions in the borrower s industry or the inadequacy of underlying collateral, is charged-off.

Provisions are charged to operating expense based upon historical loss experience, and additional amounts are provided when, in the opinion of Management, such provisions are not adequate based upon the current factors affecting loan collectibility.

The allocation of the allowance for loan losses by loan category is based on the factors mentioned in the preceding paragraphs. Accordingly, since all of these factors are subject to change, the allocation is not necessarily indicative of the breakdown of future losses.

Further information concerning the provision for loan losses and the allowance for loan losses is presented in Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K and in Note A - Business and Summary of Significant Accounting Policies to the 2014 Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

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Return on Equity and Assets

The Company s results and key ratios for 2010 2014 are summarized in the Selected Financial Data in Item 6 and Management s Discussion and Analysis in Item 7 of this Annual Report on Form 10-K.

The Company s dividend payout ratio for the years ended December 31, 2014, 2013 and 2012, was as follows:

For the Years Ended December 31,	2014	2013	2012
	(5%)		39%

Dividends were paid in June 2014 when the Company recorded net income.

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SCHEDULE I-A

Distribution of Average Assets, Liabilities and Shareholders Equity (1) (In thousands)

For the Years Ended December 31,	2014	2013	2012
ASSETS:			
Cash and due from banks	$ 29,412	$ 31,271	$ 31,307
Available for sale securities:			
Taxable securities	225,742	247,097	264,248
Non-taxable securities	34,360	36,605	39,407
Other securities	4,065	2,316	3,856
Held to maturity securities:			
Non-taxable securities	13,696	9,936	4,698
Other investments	2,962	3,262	3,450
Net loans (2)	353,216	395,240	422,495
Federal funds sold	7,305	26,306	6,601
Other assets	62,847	59,503	56,708
TOTAL ASSETS	$ 733,605	$ 811,536	$ 832,770
LIABILITIES AND SHAREHOLDERS EQUITY:			
Non-interest bearing deposits	$ 108,786	$ 109,695	$ 102,383
Interest bearing deposits	319,963	369,926	380,389
Total deposits	428,749	479,621	482,772
Federal funds purchased and securities sold under agreements to repurchase	127,707	181,702	169,352
Other liabilities	74,691	43,957	70,164
Total liabilities	631,147	705,280	722,288
Shareholders equity	102,458	106,256	110,482
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 733,605	$ 811,536	$ 832,770

(1) All averages are computed on a daily basis.

(2) Gross loans and discounts, net of unearned income and allowance for loan losses.

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SCHEDULE I-B

Average (1) Amount Outstanding for Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,		2014		2013		2012
INTEREST EARNING ASSETS:						
Loans (2)	$	362,649	$	405,463	$	430,205
Federal funds sold		7,305		26,306		6,601
Available for sale securities:						
Taxable securities		225,742		247,097		264,248
Non-taxable securities		34,360		36,605		39,407
Other securities		4,065		2,316		3,856
Held to maturity securities:						
Non-taxable securities		13,696		9,936		4,698
TOTAL INTEREST EARNING ASSETS	$	647,817	$	727,723	$	749,015
INTEREST BEARING LIABILITIES:						
Savings and negotiable interest bearing deposits	$	230,399	$	246,728	$	230,829
Time deposits		89,564		123,198		149,560
Federal funds purchased and securities sold under agreements to repurchase		127,707		181,702		169,352
Other borrowed funds		56,849		27,293		54,188
TOTAL INTEREST BEARING LIABILITIES	$	504,519	$	578,921	$	603,929

(1) All averages are computed on a daily basis.

(2) Net of unearned income. Includes nonaccrual loans

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SCHEDULE I-C

Interest Earned or Paid on Major Categories of Interest Earning Assets

And Interest Bearing Liabilities (In thousands)

For the Years Ended December 31,	2014	2013	2012
INTEREST EARNED ON:			
Loans (1)	$ 16,055	$ 18,927	$ 18,576
Federal funds sold	21	69	16
Available for sale securities:			
Taxable securities	4,502	4,407	4,527
Non-taxable securities	1,889	1,946	2,073
Other securities	18	29	15
Held to maturity securities:			
Non-taxable securities	474	363	189
TOTAL INTEREST EARNED (1)	$ 22,959	$ 25,741	$ 25,396
INTEREST PAID ON:			
Savings and negotiable interest bearing deposits	$ 174	$ 179	$ 410
Time deposits	937	919	1,090
Federal funds purchased and securities sold under agreements to repurchase	100	158	335
Other borrowed funds	230	191	233
TOTAL INTEREST PAID	$ 1,441	$ 1,447	$ 2,068

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2014, 2013 and 2012.

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SCHEDULE I-D

Average Interest Rate Earned or Paid for Major Categories of

Interest Earning Assets And Interest Bearing Liabilities

For the Years Ended December 31,	2014	2013	2012
AVERAGE RATE EARNED ON:			
Loans	4.43%	4.67%	4.32%
Federal funds sold	.29%	.26%	.24%
Available for sale securities:			
Taxable securities	1.99%	1.78%	1.71%
Non-taxable securities	5.50%	5.32%	5.26%
Other securities	.44%	1.25%	.39%
Held to maturity securities:			
Non-taxable securities	3.46%	3.65%	4.02%
TOTAL (weighted average rate)(1)	3.54%	3.54%	3.39%
AVERAGE RATE PAID ON:			
Savings and negotiable interest bearing deposits	.08%	.07%	.18%
Time deposits	1.05%	.75%	.73%
Federal funds purchased and securities sold under agreements to repurchase	.08%	.09%	.20%
Other borrowed funds	.40%	.70%	.43%
TOTAL (weighted average rate)	.29%	.25%	.34%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2014, 2013 and 2012.

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SCHEDULE I-E

Net Interest Earnings and Net Yield on Interest Earning Assets

(In thousands, except percentages)

For the Years Ended December 31,		2014		2013		2012
Total interest income (1)	$	22,959	$	25,741	$	25,396
Total interest expense		1,441		1,447		2,068
Net interest earnings	$	21,518	$	24,294	$	23,328
Net yield on interest earning assets		3.32%		3.34%		3.11%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2014, 2013 and 2012.

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SCHEDULE I-F

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2014	2013	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 16,055	$ 18,927	$ (2,872)	$ (1,998)	$ (977)	$ 103
Federal funds sold	21	69	(48)	(50)	7	(5)
Available for sale securities:						
Taxable securities	4,502	4,407	95	(380)	520	(45)
Non-taxable securities	1,889	1,946	(57)	(119)	66	(4)
Other securities	18	29	(11)	22	(19)	(14)
Held to maturity securities:						
Non-taxable securities	474	363	111	137	(19)	(7)
TOTAL INTEREST EARNED (3)	$ 22,959	$ 25,741	$ (2,782)	$ (2,388)	$ (422)	$ 28
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 174	$ 179	$ (5)	$ (12)	$ 7	$
Time deposits	937	919	18	(251)	370	(101)
Federal funds purchased and securities sold under agreements to repurchase	100	158	(58)	(47)	(16)	5
Other borrowed funds	230	191	39	207	(81)	(87)
TOTAL INTEREST PAID	$ 1,441	$ 1,447	$ (6)	$ (103)	$ 280	$ (183)

(1) Loan fees of $557 and $911 for 2014 and 2013, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2014 and 2013.

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SCHEDULE I-F (continued)

Analysis of Changes in Interest Income and Interest Expense

(In thousands)

For the Years Ended December 31,	2013	2012	Increase (Decrease)	Volume	Rate	Rate/Volume
INTEREST EARNED ON:						
Loans (1)(2)	$ 18,927	$ 18,576	$ 351	$ (1,068)	$ 1,505	$ (86)
Federal funds sold	69	16	53	48	1	4
Available for sale securities:						
Taxable securities	4,407	4,527	(120)	(294)	186	(12)
Non-taxable securities	1,946	2,073	(127)	(147)	22	(2)
Other securities	29	15	14	(6)	33	(13)
Held to maturity securities:						
Non-taxable securities	363	189	174	211	(17)	(20)
TOTAL INTEREST EARNED (3)	$ 25,741	$ 25,396	$ 345	$ (1,256)	$ 1,730	$ (129)
INTEREST PAID ON:						
Savings and negotiable interest bearing deposits	$ 179	$ 410	$ (231)	$ 28	$ (242)	$ (17)
Time deposits	919	1,090	(171)	(192)	26	(5)
Federal funds purchased and securities sold under agreements to repurchase	158	335	(177)	24	(188)	(13)
Other borrowed funds	191	233	(42)	(115)	147	(74)
TOTAL INTEREST PAID	$ 1,447	$ 2,068	$ (621)	$ (255)	$ (257)	$ (109)

(1) Loan fees of $911 and $797 for 2013 and 2012, respectively, are included in these figures.

(2) Includes interest on nonaccrual loans.

(3) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% for 2013 and 2012.

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SCHEDULE II-A

Book Value of Securities Portfolio

(In thousands)

December 31,	2014	2013	2012
Available for sale securities:			
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 183,460	$ 239,779	$ 220,635
States and political subdivisions	31,012	35,011	37,591
Other securities	650	650	650
Total	$ 215,122	$ 275,440	$ 258,876
Held to maturity securities:			
States and political subdivisions	$ 17,784	$ 11,142	$ 7,125
Total	$ 17,784	$ 11,142	$ 7,125

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SCHEDULE II-B

Maturity Securities Portfolio at December 31, 2014

And Weighted Average Yields of Such Securities

(In thousands, except percentage data)

	Maturity							
	Within one year		After one year but within five years		After five years but within ten years		After ten years	
December 31,	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:								
U.S. Treasuries, U.S. Government agencies and Mortgage-backed securities	$ 1,008	1.11%	$ 52,842	1.10%	$ 37,855	2.09%	$ 91,755	2.65%
States and political subdivisions	4,754	3.58%	8,896	3.77%	14,772	3.81%	2,590	4.10%
Other securities							650	2.00%
Total	$ 5,762	3.41%	$ 61,738	2.10%	$ 52,627	2.97%	$ 94,995	2.75%
Held to maturity securities:								
States and political subdivisions	$ 211	.60%	$ 3,964	1.98%	$ 8,118	2.51%	$ 5,491	2.42%
Total	$ 211	.60%	$ 3,964	1.98%	$ 8,118	2.51%	$ 5,491	2.42%

Note: The weighted average yields are calculated on the basis of cost. Average yields on investments in states and political subdivisions are based on their contractual yield. Available for sale securities are stated at fair value and held to maturity securities are stated at amortized cost.

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SCHEDULE III-A

Loan Portfolio

Loans by Type Outstanding (1) (In thousands)

December 31,	2014	2013	2012	2011	2010
Real estate, construction	$ 44,129	$ 64,390	$ 79,924	$ 90,068	$ 91,047
Real estate, mortgage	266,158	259,082	298,283	286,502	260,286
Loans to finance agricultural production	1,230	726	43	1,164	1,122
Commercial and industrial	37,441	42,653	43,328	43,079	43,098
Loans to individuals for household, family and other consumer expenditures	7,538	7,139	7,933	8,327	10,687
Obligations of states and political subdivisions	5,462	1,023	1,248	2,840	2,938
All other loans	449	336	324	427	721
Total	$ 362,407	$ 375,349	$ 431,083	$ 432,407	$ 409,899

(1) No foreign debt outstanding.

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SCHEDULE III-B

Maturities and Sensitivity to Changes in

Interest Rates of the Loan Portfolio as of December 31, 2014

(In thousands)

	Maturity			
December 31,	One year or less	Over one year through 5 years	Over 5 years	Total
Real estate, construction	$ 15,977	$ 13,747	$ 14,405	$ 44,129
Real estate, mortgage	29,651	104,976	131,531	266,158
Loans to finance agricultural production	1,197	33		1,230
Commercial and industrial	13,806	19,681	3,954	37,441
Loans to individuals for household, family and other consumer expenditures	2,453	4,700	385	7,538
Obligations of states and political subdivisions	4,726	736		5,462
All other loans	449			449
Total	$ 68,259	$ 143,873	$ 150,275	$ 362,407
Loans with pre-determined interest rates	$ 28,112	$ 99,364	$ 54,807	$ 182,283
Loans with floating interest rates	40,147	44,509	95,468	180,124
Total	$ 68,259	$ 143,873	$ 150,275	$ 362,407

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SCHEDULE III-C

Non-Performing Loans (In thousands)

December 31,	2014	2013	2012	2011	2010
Loans accounted for on a nonaccrual basis (1)	$ 33,298	$ 26,171	$ 53,891	$ 57,592	$ 14,537
Loans which are contractually past due 90 or more days as to interest or principal payment, but are not included above	763	651	1,445	1,832	2,961

(1) The Bank places loans on a nonaccrual status when, in the opinion of Management, they possess sufficient uncertainty as to timely collection of interest or principal so as to preclude the recognition in reported earnings of some or all of the contractual interest. See Note A Business and Summary of Significant Accounting Policies and Note C Loans to the 2014 Consolidated Financial Statements in Item 8 in this Annual Report on Form 10-K for discussion of impaired loans.

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SCHEDULE IV-A

Summary of Loan Loss Expenses

(In thousands, except percentage data)

December 31,	2014	2013	2012	2011	2010
Average amount of loans outstanding (1)(2)	$ 362,649	$ 405,463	$ 430,205	$ 405,367	$ 436,393
Balance of allowance for loan losses at beginning of period	$ 8,934	$ 8,857	$ 8,136	$ 6,650	$ 7,828
Loans charged-off:					
Commercial, financial and agricultural	4,930	499	448	22	348
Consumer and other	2,800	9,623	3,228	1,650	7,943
Total loans charged-off	7,730	10,122	3,676	1,672	8,291
Recoveries of loans:					
Commercial, financial and agricultural	277	126	23	14	14
Consumer and other	321	412	110	209	254
Total recoveries	598	538	133	223	268
Net loans charged-off	7,132	9,584	3,543	1,449	8,023
Provision for loan losses charged to operating expense	7,404	9,661	4,264	2,935	6,845
Total	$ 9,206	$ 8,934	$ 8,857	$ 8,136	$ 6,650
Ratio of net charge-offs during period to average loans outstanding	1.97%	2.36%	0.82%	0.36%	1.84%

(1) Net of unearned income.
(2) Includes nonaccrual loans.

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SCHEDULE IV-B

Allocation of the Allowance for Loan Losses

(In thousands except percentage data)

December 31,	2014 Amount	2014 % of Loans to Total Loans	2013 Amount	2013 % of Loans to Total Loans	2012 Amount	2012 % of Loans to Total Loans	2011 Amount	2011 % of Loans to Total Loans	2010 Amount	2010 % of Loans to Total Loans
Real estate, construction	$ 1,110	12	$ 1,470	17	$ 1,167	18	$ 2,018	20	$ 2,090	22
Real estate, mortgage	7,182	73	5,825	68	5,648	69	5,185	65	3,798	63
Loans to finance agricultural production	2	1		1		1	10	1	10	1
Commercial and industrial	587	10	1,338	11	1,760	9	629	10	550	10
Loans to individuals for household, family and other consumer expenditures	282	2	289	1	273	1	264	2	178	2
Obligations of states and political subdivisions		1		1		1		1		1
All other loans	43	1	12	1	9	1	30	1	24	1
Total	$ 9,206	100	$ 8,934	100	$ 8,857	100	$ 8,136	100	$ 6,650	100

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SCHEDULE V

Summary of Average Deposits and Their Yields

(In thousands, except percentage data)

Years Ended December 31,	2014 Amount	Rate	2013 Amount	Rate	2012 Amount	Rate
Demand deposits in domestic offices	$ 108,786	N/A	$ 109,695	N/A	$ 102,383	N/A
Negotiable interest bearing deposits in domestic offices	179,197	.08%	196,893	.08%	184,262	.20%
Savings deposits in domestic offices	51,202	.05%	49,835	.05%	46,567	.07%
Time deposits in domestic offices	89,564	1.05%	123,198	.75%	149,560	.73%
Total	$ 428,749	.26%	$ 479,621	.23%	$ 482,772	.31%

Certificates of deposit in amounts of $100,000 or more by the amount of time remaining until maturity as of December 31, 2014, are as follows (in thousands):

Remaining maturity:	
3 months or less	$ 15,887
Over 3 months through 6 months	4,885
Over 6 months through 12 months	7,679
Over 12 months	7,474
Total	$ 35,925

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SCHEDULE VI

Short Term Borrowings

(In thousands, except percentage data)

	2014	2013	2012
Balance, December 31,	$ 154,206	$ 209,638	$ 194,234
Weighted average interest rate at			
December 31,	.07%	.14%	.02%
Maximum outstanding at any month-end during year	$ 196,215	$ 338,083	$ 241,988
Average amount outstanding during year	$ 184,556	$ 208,995	$ 215,810
Weighted average interest rate	.30%	.42%	.29%

Note: Short term borrowings include federal funds purchased from other banks and securities sold under agreements to repurchase and short term borrowings from the Federal Home Loan Bank.

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SCHEDULE VII

Interest Sensitivity/Gap Analysis

(In thousands)

December 31, 2014:	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
ASSETS:					
Loans (1)	$ 181,721	$ 8,168	$ 94,507	$ 44,713	$ 329,109
Available for sale securities	100	5,662	61,738	147,622	215,122
Held to maturity securities		211	3,964	13,609	17,784
Totals	$ 181,821	$ 14,041	$ 160,209	$ 205,944	$ 562,015
FUNDING SOURCES:					
Interest bearing deposits	$ 237,339	$ 28,703	$ 23,064	$ 1	$ 289,107
Federal funds purchased and securities sold under agreements to repurchase	124,206				124,206
Borrowings from FHLB	30,077	231	6,040	2,360	38,708
Totals	$ 391,622	$ 28,934	$ 29,104	$ 2,361	$ 452,021
REPRICING/MATURITY GAP:					
Period	$ (209,801)	$ (14,893)	$ 131,105	$ 203,583	
Cumulative	(209,801)	(224,694)	(93,589)	109,994	
Cumulative Gap/Total Assets	(31.37%)	(33.59%)	(13.99%)	16.44%	

(1) Amounts stated include fixed and variable rate loans that are still accruing interest. Variable rate loans are included in the next period in which they are subject to a change in rate. The principal portions of scheduled payments on fixed instruments are included in the period in which they become due or mature.

Capital Resources

Information about the Company s capital resources is included in Note J Shareholders Equity to the 2014 Consolidated Financial Statements in this Annual Report on Form 10-K.

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ITEM 1a - RISK FACTORS

An investment in the Company s stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Annual Report on Form 10-K and the documents incorporated by reference before making an investment decision. The realization of any of the risks described below could have a material adverse affect on the Company and the price of its common stock.

RISKS RELATING TO THE COMPANY S BUSINESS

Greater than expected loan losses may adversely affect the Company s earnings.

The Company s investment and loan portfolio subject the Company to credit risk. Credit losses are always inherent in the banking business but the continuing challenging economic environment in the Company s trade area presents even more exposure to loss. The Company makes various assumptions and judgments about the collectibility of its loan portfolio and provides an allowance for loan losses based on a number of factors. The Company believes that its current allowance for loan losses is adequate and appropriate. However, if the Company s assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. In the event that our loan customers do not repay their loans according to the terms of the loans, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balances, the Company could experience significant loan losses or increase the provision for loan losses or both, which could have a material adverse effect on its operating results. In fact, these conditions caused the net losses experienced by the Company in 2013 and 2014. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

The Company has a high concentration of loans secured by real estate, and a greater downturn in the real estate market could materially and adversely affect earnings.

A significant portion of the Company s loan portfolio is dependent on real estate. At December 31, 2014, approximately 86% of the Company s loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. Further deterioration in the value of real estate generally or in the Company s trade area specifically could significantly impair the value of the collateral and restrict the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate value or to increase the allowance for loan losses, the Company s profitability and financial condition could be adversely impacted.

The Company has a high concentration of exposure to a number of industries.

The Company has concentrations of loan exposure to the hotel/motel and gaming industries. At December 31, 2014, these exposures were approximately $47,144,000 and $31,353,000 or 13% and 9%, respectively, of the total loan portfolio. Economic conditions have negatively impacted tourism, which is one of the major factors for success in these industries. Given the size of these relationships, a significant loss in either of these portfolios could materially and adversely affect the Company s earnings.

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The continuing economic downturn or a natural disaster, especially one affecting the Company s trade area, could adversely affect the Company.

The Company s trade area includes the Mississippi Gulf Coast and portions of southeast Louisiana and southwest Alabama. With the exception of a number of credits that are considered out of area, the Company s credit exposure is generally limited to the Mississippi Gulf Coast. Although the national economy has shown signs of improvement, local conditions appear to be lagging this trend. As a result, the Company is at risk from continuing adverse business developments in its trade area, including declining real estate value, increasing loan delinquencies, personal and business bankruptcies and unemployment rates. The Company is also at risk to weather-related disasters including hurricanes, floods and tornadoes. If the economy in the Company s trade area experiences a natural disaster or worsening economic conditions, our operating results could be negatively impacted.

Current economic factors could negatively impact the Company s liquidity.

In addition to funds provided by its banking activities such as deposits, loan payments and proceeds from the maturity of investment securities, the Company s liquidity needs have traditionally been met through the purchase of federal funds, often on an unsecured basis, and advances from the Federal Home Loan Bank (FHLB). Disruption in the financial markets in previous years negatively impacted the availability of these unsecured funds. As a result, the Company increased its borrowing lines with the FHLB and secured approval to participate in the Federal Reserve Bank s Discount Window Primary Credit Program.

The Company is subject to industry competition which may have an impact on its success.

The profitability of the Company depends on its ability to compete successfully. The Company operates in a highly competitive financial services environment. Certain competitors are larger and may have more resources than the Company. The Company faces competition in its trade area from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, insurance companies, brokerage and investment banking firms and other financial intermediaries. Some of these non-bank competitors are not subject to the same extensive regulations that govern the Company or the Bank and may have greater flexibility in competing for business. Increased competition could require the Company to increase the rates paid on deposits or lower the rates offered on loans, which could adversely affect and also limit future growth and earnings prospects.

The Company s profitability is vulnerable to interest rate fluctuations.

The Company s profitability is dependent to a large extent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company is asset sensitive to market interest rates, as its assets reprice more quickly to changes in interest rates than do its liabilities. Interest rates dropped by the unprecedented amount of 400 basis

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points during 2008 as the Federal Reserve, through its Federal Open Market Committee, attempted to stabilize the financial markets, reduce the effects of the recession and stimulate the economy. These actions taken by the Federal Reserve continued to impact the Company s earnings in 2014. During 2010, the Federal Reserve increased the discount rate 25 basis points; however, there was no effect on the fed funds or prime interest rates. Discount or fed funds rate changes that occur in 2015 may affect the Company s earnings in the current year and/or in the future.

Changes in the policies of monetary authorities and other government action could adversely affect the Company s profitability.

Many factors affect the demand for loans and the ability to attract deposits, including changes in government economic and monetary policies, particularly by the Federal Reserve, modifications to tax, banking and credit laws and regulations, national, state and local economic growth rates and employment rates. Previous legislation such as EESA and ARRA were passed to address issues facing certain financial institutions, improve the general availability of credit for consumers and businesses, stimulate the national economy and promote long-term growth and stability. Further regulation impacting the Company and its operations include The Dodd-Frank Act, which was passed to increase transparency, accountability and oversight over financial firms and products as well as to provide protection to consumers. The new capital requirements under BASEL III raise minimum capital requirements, change the definition of capital, create a capital conservation buffer and increase risk weights for certain assets and exposures. There can be no assurance that EESA, ARRA, Dodd-Frank or BASEL III will achieve their intended purposes. Furthermore, their failure could result in continuing or worsening economic and market conditions, and this could adversely affect our operations.

The Company is subject to regulation by various federal and state entities.

The Company is subject to the regulations of the SEC, the Federal Reserve Board, the FDIC and the Department of Banking. New regulations issued by these agencies, including but not limited to those relating to The Dodd-Frank Act and the Consumer Financial Protection Bureau, may adversely affect the Company s ability to carry on its business activities. The Company is also subject to various other federal and state laws and certain changes in these laws and regulations may adversely affect the Company s operations. Noncompliance with certain of these regulations may impact the Company s business plans.

The Company is also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of the Company and may also require additional effort or cost to implement.

The Company is subject to the requirements under The Sarbanes-Oxley Act of 2002 with respect to the assessment of internal controls over financial reporting.

The Company s management is required to report on the effectiveness of internal controls over financial reporting for each fiscal year end. The rules governing the standards that must be met for management to assess internal controls are complex and require significant documentation and testing. In connection with this effort, the Company has and will continue to incur increased expenses and diversion of Management s time and other internal resources. If the Company cannot make the required report, investor confidence in the Company s common stock could be adversely affected.

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The Company is subject to anti-terrorism and money laundering legislation.

The Company is subject to the USA Patriot Act, the Bank Secrecy Act, and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and account relationships, intended to guard against money laundering and terrorism financing. Noncompliance with these rules and regulations may adversely affect the Company s operations and may impact the Company s business plans.

The Company relies heavily on technology and computer systems, and disruptions of, failures of, advances in and changes in technology could significantly affect business.

As is customary in the banking industry, the Company is dependent upon automated and non-automated systems to record and process our transaction volume. This poses the risk that technical system flaws, employee errors or tampering or manipulation of those systems by employees, customers or outsiders will result in losses. Any such losses, which may be difficult to detect, could adversely affect the Company s financial condition or results of operations. In addition, the occurrence of such a loss could expose the Company to reputational risk, the loss of customer business, additional regulatory scrutiny or civil litigation and possible financial liability. The Company may also be subject to disruptions of operating systems arising from events that are beyond our control, such as computer viruses, communication and energy disruption and unethical individuals with technological ability to cause disruptions or failures of data processing systems. The Company s ability to compete depends on the ability to continue to adapt to changes in technology on a timely and cost-effective basis to meet customers demands.

RISKS RELATING TO AN INVESTMENT IN THE COMPANY S COMMON STOCK

Securities issued by the Company are not FDIC insured.

The Company s common stock is not a savings or deposit account or other obligation of the Bank and is not insured by the FDIC, the Bank Insurance Fund or any other government agency or instrumentality, or any private insurer and is subject to investment risk, including the possible loss of principal.

The directors of the Company and executive management own a significant number of shares of stock, allowing further control over business and corporate affairs.

The Company s directors and executive officers beneficially own approximately 9% of the outstanding common stock of Peoples Financial Corporation. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on the Company s business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval.

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Provisions of the Company s articles of incorporation and bylaws, Mississippi law and state and federal banking regulations could delay or prevent a takeover by a third party.

Certain provisions of the Company s articles of incorporation and bylaws and of state and federal law may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company s shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take in to account several factors, including the resources of the acquirer and the antitrust effects of the acquisition. There are also Mississippi statutory provisions and provisions in the Company s articles of incorporation and bylaws that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in the Company s articles and bylaws could result in the Company being less attractive to a potential acquirer.

The Company s future ability to pay dividends is subject to restrictions.

Since the Company is a holding company with no significant assets other than the Bank, the Company has no material source of funds other than dividends received from the Bank. Therefore, the ability to pay dividends to the shareholders will depend on the Bank s ability to pay dividends to the Company. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. Currently, the Federal Reserve Bank and the FDIC must approve the declaration and payment of dividends by the Company and the Bank, respectively.

ITEM 1b - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

The principal properties of the Company are its 18 business locations, including the Main Office, which is located at 152 Lameuse Street in Biloxi, MS, 39530. The Armed Forces Retirement Home (AFRH) Branch located at 1800 Beach Drive, Gulfport, MS 39507, is located in space provided by the AFRH. The Keesler Branch located at 1507 Meadows Drive, Keesler AFB, MS 39534, is rented from the Department of Defense. All other branch locations are owned by the Company. The address of the other branch locations are:

Bay St. Louis Office	408 Highway 90 East, Bay St. Louis, MS 39520
Cedar Lake Office	1740 Popps Ferry Road, Biloxi, MS 39532
Diamondhead Office	5429 West Aloha Drive, Diamondhead, MS 39525
D Iberville-St. Martin Office	10491 Lemoyne Boulevard, D Iberville, MS 39540
Downtown Gulfport Office	1105 30th Avenue, Gulfport, MS 39501

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Gautier Office	2609 Highway 90, Gautier, MS 39553
Handsboro Office	0412 E. Pass Road, Gulfport, MS 39507
Long Beach Office	298 Jeff Davis Avenue, Long Beach, MS 39560
Ocean Springs Office	2015 Bienville Boulevard, Ocean Springs, MS 39564
Orange Grove Office	12020 Highway 49 North, Gulfport, MS 39503
Pass Christian Office	301 East Second Street, Pass Christian, MS 39571
Saucier Office	17689 Second Street, Saucier, MS 39574
Waveland Office	470 Highway 90, Waveland, MS 39576
West Biloxi Office	2560 Pass Road, Biloxi, MS 39531
Wiggins Office	1312 S. Magnolia Drive, Wiggins, MS 39577

ITEM 3 - LEGAL PROCEEDINGS

Information relating to legal proceedings is included in Note M Contingencies to the 2014 Consolidated Financial Statements which is in Item 8 in this Annual Report on Form 10-K.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Dividends to the Company s shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. The Company and the bank subsidiary may not declare or pay any cash dividends without prior written approval of their regulators.

At December 31, 2014, there were 474 holders of the common stock of the Company. The Company s stock is traded under the symbol PFBX and is quoted in publications under PplFnMS .

The following table sets forth the high and low sale prices of the Company s common stock as reported on the NASDAQ Capital Market.

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Year	Quarter	High	Low	Dividend Per share
2014	1st	$ 13.75	$ 12.91	$
	2nd	13.75	12.12	.10
	3rd	13.66	12.86	
	4th	13.59	12.35	
2013	1st	$ 12.75	$ 9.27	
	2nd	13.44	12.02	
	3rd	13.14	11.17	
	4th	13.24	11.53	

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ITEM 6 - SELECTED FINANCIAL DATA (In thousands except per share data)

	2014	2013	2012	2011	2010
Balance Sheet Summary					
Total assets	$ 668,895	$ 762,264	$ 804,912	$ 804,152	$ 786,545
Available for sale securities	215,122	275,440	258,875	278,918	287,078
Held to maturity securities	17,784	11,142	7,125	1,428	1,915
Loans, net of unearned discount	362,407	375,349	431,083	432,407	409,899
Deposits	392,714	428,558	475,719	468,439	484,140
Borrowings from FHLB	38,708	77,684	7,912	53,324	42,957
Shareholders equity	94,951	99,147	110,754	109,452	101,357
Summary of Operations					
Interest income	$ 22,156	$ 24,956	$ 24,628	$ 25,033	$ 29,675
Interest expense	1,441	1,447	2,067	3,178	4,601
Net interest income	20,715	23,509	22,561	21,855	25,074
Provision for loan losses	7,404	9,661	4,264	2,935	6,845
Net interest income after provision for loan losses	13,311	13,848	18,297	18,920	18,229
Non-interest income	8,619	9,067	9,529	9,860	10,114
Non-interest expense	27,208	25,654	25,277	28,781	27,581
Income (loss) before taxes	(5,278)	(2,739)	2,549	(1)	762
Applicable income taxes	4,726	(2,201)	(92)	(1,204)	(723)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641	$ 1,203	$ 1,485
Per Share Data					
Basic and diluted earnings per share	($ 1.95)	($ .10)	$ .51	$ .23	$ .29
Dividends per share	.10		.20	.19	.20
Book value	18.53	19.35	21.56	21.31	19.68
Weighted average number of shares	5,123,186	5,128,889	5,136,918	5,136,918	5,151,661
Selected Ratios					
Return on average assets	(1.38%)	(.07%)	0.32%	0.15%	0.18%
Return on average equity	(10.31%)	(.51%)	2.40%	1.14%	1.45%
Primary capital to average assets	14.64%	13.64%	14.71%	14.59%	12.96%
Risk-based capital ratios:					
Tier 1	20.70%	21.54%	20.04%	19.61%	21.01%
Total	21.95%	22.79%	21.29%	20.86%	22.26%

ITEM 7 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of the Company and its consolidated subsidiaries for the years ended December 31, 2014, 2013 and 2012. These comments highlight the significant events for these years and should be considered in combination with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this annual report.

Forward-Looking Information

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company s anticipated future financial performance. This act provides a safe harbor for such disclosure which protects the companies from unwarranted litigation if actual results are different from management expectations. This report contains forward-looking statements and reflects industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company s actual results and experience to differ from the anticipated results and expectations expressed in such forward-looking statements. Such factors and uncertainties include, but are not limited to: changes in interest rates and market prices, changes in local economic and business conditions, increased competition for deposits and loans, a deviation in actual experience from the underlying assumptions used to determine and establish the allowance for loan losses, changes in the availability of funds resulting from reduced liquidity, changes in government regulations and acts of terrorism, weather or other events beyond the Company s control.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued new accounting standards updates, which have been disclosed in Note A to the Consolidated Financial Statements. The Company does not expect that these updates will have a material impact on its financial position, or results of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and assumptions on an on-going basis using historical experience and other factors, including the current economic environment. We adjust such estimates and assumptions when facts and circumstances dictate. Certain critical accounting policies affect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Allowance for loan losses:

The Company s most critical accounting policy relates to its allowance for loan losses (ALL), which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The ALL is established and maintained at an amount sufficient to cover the estimated loss associated with the loan portfolio of the Company as of the date of the financial statements. Credit losses arise not only from credit risk, but also from other risks inherent in the lending process

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including, but not limited to, collateral risk, operation risk, concentration risk and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the ALL. On a quarterly basis, Management estimates the probable level of losses to determine whether the allowance is adequate to absorb reasonably foreseeable, anticipated losses in the existing portfolio based on our past loan loss experience, known and inherent risk in the portfolio, adverse situations that may affect borrowers ability to repay and the estimated value of any underlying collateral and current economic conditions. Management believes that the ALL is adequate and appropriate for all periods presented in these financial statements. If there was a deterioration of any of the factors considered by Management in evaluating the ALL, the estimate of loss would be updated, and additional provisions for loan losses may be required. The analysis divides the portfolio into two segments: a pool analysis of loans based upon a five year average loss history which is updated on a quarterly basis and which may be adjusted by qualitative factors by loan type and a specific reserve analysis for those loans considered impaired under GAAP. All credit relationships with an outstanding balance of $100,000 or greater that are included in Management s loan watch list are individually reviewed for impairment. All losses are charged to the ALL when the loss actually occurs or when a determination is made that a loss is likely to occur; recoveries are credited to the ALL at the time of receipt.

Other Real Estate:

Other real estate (ORE) includes real estate acquired through foreclosure. Each other real estate property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals performed by third-party valuation specialists. If Management determines that the fair value of a property has decreased subsequent to foreclosure, the Company records a write down which is included in non-interest expense.

Employee Benefit Plans:

Employee benefit plan liabilities and pension costs are determined utilizing actuarially determined present value calculations. The valuation of the benefit obligation and net periodic expense is considered critical, as it requires Management and its actuaries to make estimates regarding the amount and timing of expected cash outflows including assumptions about mortality, expected service periods and the rate of compensation increases.

Income Taxes:

GAAP requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. See Note I to the Consolidated Financial Statements for additional details. As part of the process of preparing our Consolidated Financial Statements, the Company is required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the provision for the allowance for loan losses, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities that are included in our consolidated statement of condition. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent the Company establishes a valuation allowance or adjusts this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations.

OVERVIEW

The Company is a community bank serving the financial and trust needs of its customers in our trade area, which is defined as those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the bank subsidiary s three most outlying locations. Maintaining a strong core deposit base and providing commercial and real estate lending in our trade area are the traditional focuses of the Company. Growth has largely been achieved through de novo branching activity, and it is expected that these strategies will continue to be emphasized in the future.

The Company incurred a net loss of $10,004,000 for 2014 compared with a net loss of $538,000 for 2013. Results in 2014 included a decrease in net interest income, a decrease in non-interest income, an increase in non-interest expense and an increase in income tax expense. These increases were partially offset by a decrease in the provision for the allowance for loan losses.

Managing the net interest margin in the Company s highly competitive market and in context of larger economic conditions has been very challenging and will continue to be so, for the foreseeable future. Net interest income was impacted primarily by the decrease in interest income on loans of $2,872,000. This decrease was primarily the result of the decrease in average loans as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

Monitoring asset quality, estimating potential losses in our loan portfolio, and addressing non-performing loans continue to be emphasized during these difficult economic times, as the local economy continues to negatively impact collateral values and borrowers ability to repay their loans. A provision for the allowance for loan losses of $7,404,000 was recorded in 2014 as compared with $9,661,000 in 2013. The Company is working diligently to address and reduce its non-performing assets. The Company s nonaccrual loans totaled $33,298,000 and $26,171,000 at December 31, 2014 and December 31, 2013, respectively. Most of these loans are collateral-dependent, and the Company has rigorously evaluated the value of its collateral to determine potential losses.

Non-interest income decreased $448,000 for 2014 as compared with 2013 results. Service charges on deposit accounts decreased $336,000 for 2014 as compared with 2013 results primarily as a result of decreased ATM fee income. Results for 2014 included gains on sales of securities of $99,000 as compared with $258,000 in 2013.

Non-interest expense increased $1,554,000 for 2014 as compared with 2013 results. This increase for 2014 was the result of the increase in salaries and employee benefits of $457,000 and the increase in other real estate expense of $647,000 as compared with 2013.

The Company recorded income tax expense of $4,726,000 for 2014 as compared with an income tax benefit of $2,201,000 for 2013. In 2014, a valuation allowance of $8,140,000 was established based on an evaluation of the Company s deferred tax assets.

Total assets for December 31, 2014 decreased $93,369,000 as compared with December 31, 2013. Available for sale securities decreased $60,318,000 as a result of sales and maturities of these investments during 2014. Loans decreased $12,942,000 for 2014 as compared with December 31, 2013, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans. Other assets decreased $8,840,000 as of December 31, 2014 as compared with 2013 as a result of a valuation allowance of $8,140,000 on deferred tax assets.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income on loans, investments and other interest- earning assets exceeds interest expense on deposits and other borrowed funds, is the single largest component of the Company s income. Management s objective is to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risk. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities combined with changes in market rates of interest directly affect net interest income.

2014 as compared with 2013

The Company s average interest-earning assets decreased approximately $79,906,000, or 11%, from approximately $727,723,000 for 2013 to approximately $647,817,000 for 2014. The Company s average balance sheet decreased primarily as decreased pledging requirements on public funds allowed for reduced investment in securities and principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. Average federal funds sold also decreased based on the liquidity position of the bank subsidiary. The average yield on interest-earning assets was at 3.54% for 2014 and 2013. The yield on average loans decreased in 2014 as compared with 2013 as the prior year included $1,523,000 in interest and fees from the sale of a gaming loan which had been on nonaccrual. The yield on taxable available for sale securities increased to 1.99% for 2014 from 1.78% for 2013 due to the Company s strategy of extending the duration of new investments.

Average interest-bearing liabilities decreased approximately $74,402,000, or 13%, from

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approximately $578,921,000 for 2013 to approximately $504,519,000 for 2014. Average time deposits decreased primarily as brokered deposits matured during 2013. Average federal funds purchased and securities sold under agreements to repurchase, which only included non-deposit accounts, decreased as these customers reallocate their balances periodically. Average borrowings from the FHLB increased due to the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities increased 4 basis points, from .25% for 2013 to .29% for 2014. This increase was due to an immaterial interest expense adjustment on time deposits.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.32% for 2014 as compared with 3.34% for 2013.

2013 as compared with 2012

The Company s average interest-earning assets decreased approximately $21,292,000, or 3%, from approximately $749,015,000 for 2012 to approximately $727,723,000 for 2013. The Company s average balance sheet decreased primarily as decreased pledging requirements on public funds allowed for reduced investment in securities, the fair value of available for sale securities decreased and principal payments, maturities, charge-offs and foreclosures relating to existing loans outpaced new loans. The average yield on interest-earning assets increased 15 basis points, from 3.39% for 2012 to 3.54% for 2013, with the biggest impact being to the yield on loans. During 2013, the Company sold a gaming loan which had been on nonaccrual and recognized approximately $1,523,000 in interest and fees which increased the yield on loans to 4.67%. Without this transaction, the yield on loans would have been 4.29%. Recent investment strategy included extending durations to improve yield on these assets, while planning for rising rates in the future.

Average interest-bearing liabilities decreased approximately $25,008,000, or 4%, from approximately $603,929,000 for 2012 to approximately $578,921,000 for 2013. During 2013, brokered deposits, which are reported as time deposits, of $23,612,000 matured. Borrowings from the FHLB fluctuated based on the liquidity needs of the bank subsidiary. The average rate paid on interest-bearing liabilities decreased 9 basis points, from .34% for 2012 to .25% for 2013. Rates paid on deposit accounts and non-deposit accounts, which are reported as federal funds purchased and securities sold under agreements to repurchase, decreased in 2013. The unprecedented low rate environment which existed on a national and local level caused customers to tolerate lower interest rates in return for less risk.

The Company s net interest margin on a tax-equivalent basis, which is net interest income as a percentage of average earning assets, was 3.34% at December 31, 2013, up 23 basis points from 3.11% at December 31, 2012. Without the additional interest income and fees from the sale of the gaming loan, the net interest margin for 2013 would have been 3.13%.

The tables below analyze the changes in tax-equivalent net interest income for the years ended December 31, 2014 and 2013 and the years ended December 31, 2013 and 2012.

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	2014			2013		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1)(2)(3)	$ 362,649	$ 16,055	4.43%	$ 405,463	$ 18,927	4.67%
Federal funds sold	7,305	21	0.29%	26,306	69	0.26%
Held to maturity:						
Non taxable (4)	13,696	474	3.46%	9,936	363	3.65%
Available for Sale:						
Taxable	225,742	4,502	1.99%	247,097	4,407	1.78%
Non taxable (4)	34,360	1,889	5.50%	36,605	1,946	5.32%
Other	4,065	18	0.44%	2,316	29	1.25%
Total	$ 647,817	$ 22,959	3.54%	$ 727,723	$ 25,741	3.54%
Savings and interest-bearing DDA	$ 230,399	$ 174	0.08%	$ 246,728	$ 179	0.07%
Time deposits	89,564	937	1.05%	123,198	919	0.75%
Federal funds purchased and securities sold under agreements to repurchase	127,707	100	0.08%	181,702	158	0.09%
Borrowings from FHLB	56,849	230	0.40%	27,293	191	0.70%
Total	$ 504,519	$ 1,441	0.29%	$ 578,921	$ 1,447	0.25%
Net tax-equivalent spread			3.25%			3.29%

Net tax-equivalent margin on earning assets	3.32%	3.34%

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Analysis of Average Balances, Interest Earned/Paid and Yield

(In Thousands)

	2013			2012		
	Average Balance	Interest Earned/Paid	Rate	Average Balance	Interest Earned/Paid	Rate
Loans (1)(2)(3)	$ 405,463	$ 18,927	4.67%	$ 430,205	$ 18,576	4.32%
Federal funds sold	26,306	69	0.26%	6,601	16	0.24%
Held to maturity:						
Non taxable (4)	9,936	363	3.65%	4,698	189	4.02%
Available for Sale:						
Taxable	247,097	4,407	1.78%	264,248	4,527	1.71%
Non taxable (4)	36,605	1,946	5.32%	39,407	2,073	5.26%
Other	2,316	29	1.25%	3,856	15	0.39%
Total	$ 727,723	$ 25,741	3.54%	$ 749,015	$ 25,396	3.39%
Savings and interest-bearing DDA	$ 246,728	$ 179	0.07%	$ 230,829	$ 410	0.18%
Time deposits	123,198	919	0.75%	149,560	1,090	0.73%
Federal funds purchased and securities sold under agreements to repurchase	181,702	158	0.09%	169,352	335	0.20%
Borrowings from FHLB	27,293	191	0.70%	54,188	233	0.43%
Total	$ 578,921	$ 1,447	0.25%	$ 603,929	$ 2,068	0.34%
Net tax-equivalent spread			3.29%			3.05%
			3.34%			3.11%

Net
tax-equivalent
margin on
earning assets

(1) 2013 includes interest and fees of $1,523 recognized from sale of a nonaccrual loan during the fourth quarter.
(2) Loan fees of $557, $911 and $797 for 2014, 2013 and 2012, respectively, are included in these figures.
(3) Includes nonaccrual loans.
(4) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2014, 2013 and 2012.

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ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE (in thousands)

	For the Year Ended December 31, 2014 compared with December 31, 2013			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,998)	$ (977)	$ 103	$ (2,872)
Federal funds sold	(50)	7	(5)	(48)
Held to maturity securities:				
Non taxable	137	(19)	(7)	111
Available for sale securities:				
Taxable	(380)	520	(45)	95
Non taxable	(119)	66	(4)	(57)
Other	22	(19)	(14)	(11)
Total	$ (2,388)	$ (422)	$ 28	$ (2,782)
Interest paid on:				
Savings and interest-bearing				
DDA	$ (12)	$ 7	$	$ (5)
Time deposits	(251)	370	(101)	18
Federal funds purchased	(47)	(16)	5	(58)
Borrowings from FHLB	207	(81)	(87)	39
Total	$ (103)	$ 280	$ (183)	$ (6)

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ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSE (in thousands)

	For the Year Ended December 31, 2013 compared with December 31, 2012			
	Volume	Rate	Rate/Volume	Total
Interest earned on:				
Loans	$ (1,068)	$ 1,505	$ (86)	$ 351
Federal funds sold	48	1	4	53
Held to maturity securities:				
Non taxable	211	(17)	(20)	174
Available for sale securities:				
Taxable	(294)	186	(12)	(120)
Non taxable	(147)	22	(2)	(127)
Other	(6)	33	(13)	14
Total	$ (1,256)	$ 1,730	$ (129)	$ 345
Interest paid on:				
Savings and interest-bearing				
DDA	$ 28	$ (242)	$ (17)	$ (231)
Time deposits	(192)	26	(5)	(171)
Federal funds purchased	24	(188)	(13)	(177)
Borrowings from FHLB	(115)	147	(74)	(42)
Total	$ (255)	$ (257)	$ (109)	$ (621)

Provision for Allowance for Loan Losses

In the normal course of business, the Company assumes risk in extending credit to its customers. This credit risk is managed through compliance with the loan policy, which is approved by the Board of Directors. The policy establishes guidelines relating to underwriting standards, including but not limited to financial analysis, collateral valuation, lending limits, pricing considerations and loan grading. The Company s Loan Review and Special Assets Departments play key roles in monitoring the loan portfolio and managing problem loans. New loans and, on a periodic basis, existing loans are reviewed to evaluate compliance with the loan policy. Loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area; residential and land development; construction and commercial real estate loans, and their direct and indirect impact on the Company s operations are evaluated on a monthly basis. Loan delinquencies and deposit overdrafts are closely monitored in order to identify developing problems as early as possible.

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Lenders experienced in workout scenarios consult with loan officers and customers to address non-performing loans. A monthly watch list of credits which pose a potential loss to the Company is prepared based on the loan grading system. This list forms the foundation of the Company s allowance for loan loss computation.

Management relies on its guidelines and existing methodology to monitor the performance of its loan portfolio and to identify and estimate potential losses based on the best available information. The potential effect of the continuing decline in real estate values and actual losses incurred by the Company were key factors in our analysis. Much of the Company s loan portfolio is collateral-dependent, requiring careful consideration of changes in the value of the collateral. Note A to the Consolidated Financial Statements discloses a summary of the accounting principles applicable to impaired and nonaccrual loans as well as the allowance for loan losses. Note C to the Consolidated Financial Statements presents additional analyses of the composition, aging and performance of the loan portfolio as well as the transactions in the allowance for loan losses.

The Company s analysis includes evaluating the current value of collateral securing all nonaccrual loans. Nonaccrual loans totaled $33,298,000 and $26,171,000 with specific reserves on these loans of $2,207,000 and $1,280,000 as of December 31, 2014 and 2013, respectively. The specific reserves allocated to nonaccrual loans are relatively low as collateral values appear sufficient to cover loan losses or the loan balances have been charged down to their realizable value.

The Company s on-going, systematic evaluation resulted in the Company recording a total provision for the allowance for loan losses of $7,404,000, $9,661,000 and $4,264,000 in 2014, 2013 and 2012, respectively. The increases for 2014 and 2013 were the result of receiving new appraisals on several collateral-dependent loans. The new appraisals caused Management to update the evaluation of these loans and increase the loan loss provision significantly for two impaired loans during these years. Additional loan loss provisions of $1,600,000 and $7,600,000 were recorded for one out-of-area residential development loan in 2014 and 2013, respectively. An additional loan loss provision of $3,300,000 was recorded for one commercial real estate loan secured by a hotel in our trade area in 2014. The allowance for loan losses as a percentage of loans was 2.54%, 2.38% and 2.05% at December 31, 2014, 2013 and 2012, respectively. The Company believes that its allowance for loan losses is appropriate as of December 31, 2014.

The allowance for loan losses is an estimate, and as such, events may occur in the future which may affect its accuracy. The Company anticipates that it is possible that additional information will be gathered in the future which may require an adjustment to the allowance for loan losses. Management will continue to closely monitor its portfolio and take such action as it deems appropriate to accurately report its financial condition and results of operations.

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Non-interest income

2014 as compared with 2013

Total non-interest income decreased $448,000 in 2014 as compared with 2013. Service charges on deposit accounts decreased $336,000 in 2014 as compared with 2013 as a result of decreased ATM fees. ATM fees decreased $333,000 as the Company s off-site ATMs at a casino transferred to another vendor during 2014 which reduced ATM transactions. Gains from liquidation, sales and calls of securities decreased $159,000 as sales were executed when proceeds would be maximized. The Company realized a loss from operations of its investments in a low income housing partnership in 2014 as compared with income from operations in 2013 as a result of decreased occupancy.

2013 as compared with 2012

Total non-interest income decreased $462,000 in 2013 as compared with 2012. Service charges on deposit accounts increased $325,000 in 2013 as compared with 2012 as a result of increased service charges and ATM fees and a decrease in NSF fees. Fees from service charges increased $51,000 as a result of the Company increasing per account and per transactions fees in 2013 and an increase in ATM fees of $409,000 as a result of the improvement in the local casinos at which the Company has off-site ATMs. NSF fees decreased $153,000 as customers changed their overdraft activity based on economic conditions. Gains from sales and calls of securities decreased $1,106,000 as sales were executed when proceeds would be maximized. The increase in cash surrender value of life insurance decreased $72,000 in 2013 as compared with 2012 as a result of the decline in the stock market. The Company had a loss from impairment of other investments of $360,000 in 2012 and income on other investments of $42,000 in 2013 as compared with a loss of $84,000 in 2012. Other income decreased as prior year results included gains of $31,000 from the sale of bank vehicles.

Non-interest expense

2014 as compared with 2013

Total non-interest expense increased $1,554,000 in 2014 as compared with 2013. Salaries and employee benefits increased $457,000 in 2014 as compared with 2013. Salaries increased $293,000 in 2014 as compared with 2013 due to merit raises. Expenses relating to the retiree health plan increased $123,000 as 2013 s results included the effect of an amendment to the plan which lowered the expense. Equipment rentals, depreciation and maintenance increased $176,000 in 2014 as compared with 2013 primarily as a result of an increase of $63,000 in depreciation and servicing costs on new computer hardware and software placed into service during 2014. Other expense increased $856,000 for 2014 as compared with 2013. This increase was the result of increases in FDIC and state assessments and other real estate expenses. FDIC and state assessments increased $163,000 in 2014 as 2013 results included an adjustment in the estimate of prepaid assessments. Increased write downs of other real estate to fair value caused these expenses to increase $647,000 in 2014 as compared with 2013.

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<u>2013 as compared with 2012</u>

Total non-interest expense increased $377,000 in 2013 as compared with 2012. Salaries and employee benefits decreased $424,000 in 2013 as compared with 2012. Salaries increased $101,000 in 2013 as compared with 2012 due to merit raises. Expenses relating to deferred compensation plans decreased $136,000 in 2013 as a result of the impact of recent and future retirements and changes in the discount rate utilized to compute related liabilities. The Company s board of directors reduced contributions to its defined contribution plans $110,000 in 2013 as a result of the net loss. Health insurance costs decreased $270,000 as a result of a reduction in claims in 2013 as compared with 2012 and amendments made to the retiree health plan which require plan participants to utilize drug benefits and health insurance coverage available under Medicare. Equipment rentals, depreciation and maintenance decreased $228,000 in 2013 as compared with 2012 primarily as a result of a decrease of $299,000 in depreciation on furniture and equipment replaced during the years after Hurricane Katrina became fully depreciated. Maintenance costs increased $33,000 as a result of the timing of work performed. Other expense increased $1,048,000 for 2013 as compared with 2012. This increase was the result of increases in advertising, FDIC and state assessments, other real estate and ATM expenses, which were partially offset by a decrease in data processing costs. Advertising expenses increased $107,000, which was primarily attributable to the production of a new advertising campaign. FDIC and state assessments increased $367,000 in 2013 as 2012 results included an adjustment in the estimate of prepaid assessments. Increased write downs of other real estate to fair value caused these expenses to increase $315,000 in 2013 as compared with 2012. ATM expense increased $334,000 in 2013 as a result of increased ATM activity. Data processing expense decreased $180,000 as 2012 costs included several additional services and projects.

Income Taxes

Income taxes have been impacted by non-taxable income and federal tax credits during 2014, 2013 and 2012, respectively. Income taxes increased in 2014 as the Company established a valuation allowance for its deferred tax assets. Note I to the Consolidated Financial Statements presents a reconciliation of income taxes for these three years.

FINANCIAL CONDITION

Cash and due from banks decreased $12,708,000 at December 31, 2014, compared with December 31, 2013 in the management of the bank subsidiary s liquidity position.

Available for sale securities decreased $60,318,000 at December 31, 2014 compared with December 31, 2013 as a result of sales and maturities of these investments during 2014.

Held to maturity securities increased $6,642,000 at December 31, 2014 compared with December 31, 2013 as the Company opted to classify some of its investment purchases during the current year as held to maturity.

Loans decreased $12,942,000 at December 31, 2014 compared with December 31, 2013, as principal payments, maturities, charge-offs and foreclosures on existing loans exceeded new loans.

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Other real estate (ORE) decreased $1,984,000 at December 31, 2014 as compared with December 31, 2013. Loans totaling $1,345,000 were transferred into ORE while $2,068,000 was sold for a gain of $47,000 and write-downs of ORE to fair value were $1,261,000 during 2014.

Other assets decreased $8,840,000 at December 31, 2014 as compared with December 31, 2013 primarily as a result of a valuation allowance of $8,140,000 on deferred tax assets.

Total deposits decreased $35,844,000 at December 31, 2014, as compared with December 31, 2013. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from year to year are anticipated by Management as customers in the casino industry and county and municipal entities reallocate their resources periodically.

Federal funds purchased and securities sold under agreements to repurchase decreased $15,433,000 at December 31, 2014 as compared with December 31, 2013 as several county and municipal entities reallocated their balances from a non-deposit account during 2014.

Borrowings from the Federal Home Loan Bank decreased $38,976,000 at December 31, 2014 as compared with December 31, 2013 based on the liquidity needs of the bank subsidiary.

Employee and director benefit plans liabilities increased $1,120,000 at December 31, 2014 as compared with December 31, 2013 due to deferred compensation benefits earned by employees and directors during 2014.

SHAREHOLDERS EQUITY AND CAPITAL ADEQUACY

Strength, security and stability have been the hallmark of the Company since its founding in 1985 and of its bank subsidiary since its founding in 1896. A strong capital foundation is fundamental to the continuing prosperity of the Company and the security of its customers and shareholders. The primary and risk-based capital ratios are important indicators of the strength of a Company s capital. These figures are presented in the Five-Year Comparative Summary of Selected Financial Information.

The measure of capital adequacy which is currently used by Management to evaluate the strength of the Company s capital is the primary capital ratio which was 14.38% at December 31, 2014, which is well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being well-capitalized by the banking regulatory authorities.

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Significant transactions affecting shareholders equity during 2014 are described in Note J to the Consolidated Financial Statements. The Statement of Changes in Shareholders Equity also presents all activity in the Company s equity accounts.

LIQUIDITY

Liquidity represents the Company s ability to adequately provide funds to satisfy demands from depositors, borrowers and other commitments by either converting assets to cash or accessing new or existing sources of funds. Note L to the Consolidated Financial Statements discloses information relating to financial instruments with off-balance-sheet risk, including letters of credit and outstanding unused loan commitments. The Company closely monitors the potential effects of funding these commitments on its liquidity position. Management monitors these funding requirements in such a manner as to satisfy these demands and to provide the maximum return on its earning assets.

The Company monitors and manages its liquidity position diligently through a number of methods, including through the computation of liquidity risk targets and the preparation of various analyses of its funding sources and utilization of those sources on a monthly basis. The Company also uses proforma liquidity projections which are updated on a continuous basis in the management of its liquidity needs and also conducts contingency testing on its liquidity plan. The Company has also been approved to participate in the Federal Reserve s Discount Window Primary Credit Program, which it intends to use only as a contingency. Management carefully monitors its liquidity needs, particularly relating to potentially volatile deposits, and the Company has encountered no problems with meeting its liquidity needs.

Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. The Company also uses other sources of funds, including borrowings from the FHLB. The Company generally anticipates relying on deposits, purchases of federal funds and borrowings from the FHLB for its liquidity needs in 2015.

REGULATORY MATTERS

During 2009, Management identified opportunities for improving risk management, addressing asset quality concerns, managing concentrations of credit risk and ensuring sufficient liquidity at the Bank as a result of its own investigation as well as examinations performed by certain bank regulatory agencies. In concert with the regulators, the Company has identified specific corrective steps and actions to enhance its risk management, asset quality and liquidity policies, controls and procedures. The Company and the Bank may not declare or pay any cash dividends without the prior written approval of their regulators.

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OFF-BALANCE SHEET ARRANGEMENTS

The Company is a party to off-balance-sheet arrangements in the normal course of business to meet the financing needs of its customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet arrangements. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amount does not necessarily represent future cash requirements. As discussed previously, the Company carefully monitors its liquidity needs and considers its cash requirements, especially for loan commitments, in making decisions on investments and obtaining funds from its other sources. Further information relating to off-balance-sheet instruments can be found in Note L to the Consolidated Financial Statements.

ITEM 7a - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market prices and rates. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company s business activities. Also, the Company does not currently, and has no plans to, engage in trading activities or use derivative or off-balance sheet instruments to manage interest rate risk.

The Company has risk management policies in place to monitor and limit exposure to market risk. The Asset/Liability Committee (ALCO Committee), whose members include the chief executive officer, the executive vice president, the chief credit officer, the chief financial officer and the investment officers of the bank subsidiary, is responsible for the day-to-day operating guidelines, approval of strategies affecting net interest income and coordination of activities within policy limits established by the Board of Directors based on the Company s tolerance for risk. Specifically, the key objectives of the Company s asset/liability management program are to manage the exposure of planned net interest margins to unexpected changes due to interest rate fluctuations. These efforts will also affect loan pricing policies, deposit interest rate policies, asset mix and volume guidelines and liquidity. The ALCO Committee utilizes a number of tools in its activities, including software to assist with interest rate risk management and balance sheet management. The ALCO Committee reports to the Board of Directors on a quarterly basis.

The Company has implemented a conservative approach to its asset/liability management. The net interest margin is managed on a daily basis largely as a result of the management of the liquidity needs of the bank subsidiary. The Company generally follows a policy of investing in short term U.S. Agency securities with maturities of two years or more. Due to the low interest rate environment, the duration of investments has been extended to fifteen years with call provisions. The loan portfolio consists of a 40% /60% blend of fixed and floating rate loans. It is the general loan

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policy to offer loans with maturities of seven years or less; however the market is now dictating floating rate terms to be extended up to twenty years. On the liability side, more than 75% of the deposits are demand and savings transaction accounts. Additionally, 85% of the certificates of deposit mature within eighteen months. Since the Company s deposits are generally not rate-sensitive, they are considered to be core deposits. The short term nature of the financial assets and liabilities allows the Company to meet the dual requirements of liquidity and interest rate risk management.

The interest rate sensitivity tables below provide additional information about the Company s financial instruments that are sensitive to changes in interest rates. The negative gap in 2015 is mitigated by the nature of the Company s deposits, whose characteristics have been previously described. The tabular disclosure reflects contractual interest rate repricing dates and contractual maturity dates. Loan maturities have been adjusted for the allowance for loan losses. There have been no adjustments for such factors as prepayment risk, early calls of investments, the effect of the maturity of balloon notes or the early withdrawal of deposits. The Company does not believe that the aforementioned factors have a significant impact on expected maturity.

Interest rate sensitivity at December 31, 2014 and 2013 was as follows (in thousands):

ecember 31, 2014:	2015	2016	2017	2018	2019	Beyond	Total	12/31/201 Fair Valu
ans, net	$ 202,946	$ 28,192	$ 10,215	$ 26,515	$ 31,918	$ 53,415	$ 353,201	$ 355,0
erage rate	4.86%	5.51%	5.95%	4.73%	4.98%	4.58%	4.92%	
urities	16,055	5,017	12,972	13,368	24,264	166,696	238,372	238,44
erage rate	2.30%	2.78%	2.05%	2.37%	2.12%	2.74%	2.39%	
al Financial ets	219,001	33,209	23,187	39,883	56,182	220,111	591,573	593,45
erage rate	4.77%	5.29%	4.76%	4.25%	4.28%	3.38%	4.31%	
osits	266,042	7,609	10,333	3,073	2,050		289,107	289,46
erage rate	0.69%	0.55%	1.25%	0.96%	0.96%		0.80%	
eral funds chased and urities sold under eements to urchase	124,206						124,206	124,20
erage rate	0.07%						0.07%	
rowings from LB	35,308	311	296	245	187	2,361	38,708	40,73
erage rate	3.50%	4.08%	4.08%	4.08%	4.08%	4.08%	3.56%	
al Financial bilities	425,556	7,920	10,629	3,318	2,237	2,361	452,021	454,40
erage rate	1.57%	1.37%	1.49%	1.75%	1.83%	4.08%	1.61%	

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December 31, 2013:	2014	2015	2016	2017	2018	Beyond	Total	12/31/2013 Fair Value
Loans, net	$ 238,254	$ 8,187	$ 27,900	$ 11,528	$ 31,264	$ 49,282	$ 366,415	$ 369,117
Average rate	4.92%	6.23%	6.47%	5.83%	4.94%	4.45%	4.68%	
Securities	17,191	5,940	20,128	12,197	13,110	225,112	293,678	293,222
Average rate	2.93%	3.06%	1.69%	2.38%	2.33%	2.43%	2.39%	
Total Financial Assets	255,445	14,127	48,028	23,725	44,374	274,394	660,093	662,339
Average rate	4.84%	5.40%	5.71%	4.79%	4.51%	3.01%	4.01%	
Deposits	295,583	10,183	2,428	7,948	5,299		321,441	322,535
Average rate	1.96%	1.43%	1.32%	1.18%	1.18%		1.86%	
Federal funds purchased and securities sold under agreements to repurchase	139,639						139,639	139,639
Average rate	0.09%						0.09%	
Borrowings from FHLB	70,246	254	251	5,233	179	1,521	77,684	79,051
Average rate	1.59%	4.58%	4.58%	1.64%	4.58%	1.67%	1.66%	
Total Financial Liabilities	505,468	10,437	2,679	13,181	5,478	1,521	538,764	541,225
Average rate	1.87%	1.66%	2.18%	1.40%	1.57%	1.67%	1.80%	

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

December 31,	**2014**	**2013**	**2012**
Assets			
Cash and due from banks	$ 23,556	$ 36,264	$ 54,020
Available for sale securities	215,122	275,440	258,876
Held to maturity securities, fair value of $17,859 - 2014; $10,686 - 2013; $7,225 - 2012	17,784	11,142	7,125
Other investments	2,962	3,262	3,450
Federal Home Loan Bank Stock, at cost	2,504	3,834	2,380
Loans	362,407	375,349	431,083
Less: Allowance for loan losses	9,206	8,934	8,857
Loans, net	353,201	366,415	422,226
Bank premises and equipment, net of accumulated depreciation	23,784	25,308	26,222
Other real estate	7,646	9,630	7,008
Accrued interest receivable	2,125	2,607	2,895
Cash surrender value of life insurance	18,145	17,456	16,861
Other assets	2,066	10,906	3,849
Total assets	$ 668,895	$ 762,264	$ 804,912

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousand except share data)

December 31,	**2014**	**2013**	**2012**
Liabilities and Shareholders Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 103,607	$ 107,117	$ 102,609
Savings and demand, interest bearing	212,534	217,005	232,401
Time, $100,000 or more	35,925	60,519	94,606
Other time deposits	40,648	43,917	46,103
Total deposits	392,714	428,558	475,719
Federal funds purchased and securities sold under agreements to repurchase	124,206	139,639	194,234
Borrowings from Federal Home Loan Bank	38,708	77,684	7,912
Employee and director benefit plans liabilities	16,957	15,837	14,291
Other liabilities	1,359	1,399	2,002
Total liabilities	573,944	663,117	694,158
Shareholders Equity:			
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at December 31, 2014 and 2013 and 5,136,918 at December 31, 2012	5,123	5,123	5,137
Surplus	65,780	65,780	65,780
Undivided profits	23,743	34,259	34,964
Accumulated other comprehensive income (loss), net of tax	305	(6,015)	4,873
Total shareholders equity	94,951	99,147	110,754

Total liabilities and shareholders equity	$	668,895	$	762,264	$	804,912

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)

Years Ended December 31,	2014	2013	2012
Interest income:			
Interest and fees on loans	$ 16,055	$ 18,927	$ 18,577
Interest and dividends on securities:			
U. S. Treasuries	587	590	463
U.S. Government agencies	3,027	3,114	3,777
Mortgage-backed securities	888	703	287
States and political subdivisions	1,560	1,524	1,493
Other investments	18	29	15
Interest on federal funds sold	21	69	16
Total interest income	22,156	24,956	24,628
Interest expense:			
Deposits	1,111	1,098	1,500
Borrowings from Federal Home Loan Bank	230	191	232
Federal funds purchased and securities sold under agreements to repurchase	100	158	335
Total interest expense	1,441	1,447	2,067
Net interest income	20,715	23,509	22,561
Provision for allowance for loan losses	7,404	9,661	4,264
Net interest income after provision for allowance for loan losses	$ 13,311	$ 13,848	$ 18,297

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)

Years Ended December 31,	2014	2013	2012
Non-interest income:			
Trust department income and fees	$ 1,463	$ 1,423	$ 1,458
Service charges on deposit accounts	5,900	6,236	5,911
Gain on liquidation, sales and calls of securities	99	258	1,364
Loss on impairment of other investments			(360)
Income (loss) on other investments	(64)	42	(84)
Increase in cash surrender value of life insurance	589	501	573
Other income	632	607	667
Total non-interest income	8,619	9,067	9,529
Non-interest expense:			
Salaries and employee benefits	12,025	11,568	11,992
Net occupancy	2,480	2,415	2,434
Equipment rentals, depreciation and maintenance	3,054	2,878	3,106
Other expense	9,649	8,793	7,745
Total non-interest expense	27,208	25,654	25,277
Income (loss) before income taxes	(5,278)	(2,739)	2,549
Income tax (benefit) expense	4,726	(2,201)	(92)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Basic and diluted earnings (loss) per share	$ (1.95)	$ (.10)	$ .51

Dividends declared per share	$ .10	$	$ .20

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

Years Ended December 31,		**2014**		**2013**		**2012**
Net income (loss)	$	(10,004)	$	(538)	$	2,641
Other comprehensive income (loss), net of tax:						
Net unrealized gain (loss) on available for sale securities, net of tax of $3,506, $5,153 and $440 for the years ended December 31, 2014, 2013 and 2012, respectively		6,806		(10,002)		855
Reclassification adjustment for realized gains on available for sale securities called or sold in current year, net of tax of $34, $88 and $464 for the years ended December 31, 2014, 2013 and 2012, respectively		(65)		(170)		(900)
Loss from unfunded post-retirement benefit obligation, net of tax of $217, $369 and $137 for the years ended December 31, 2014, 2013 and 2012, respectively		(421)		(716)		(266)
Total other comprehensive income (loss)		6,320		(10,888)		(311)
Total comprehensive income (loss)	$	(3,684)	$	(11,426)	$	2,330

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity

(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2012	5,136,918	$ 5,137	$ 65,780	$ 33,351	$ 5,184	$ 109,452
Net income				2,641		2,641
Other comprehensive loss, net of tax					(311)	(311)
Cash dividend ($.20 per share)				(1,028)		(1,028)
Balance, December 31, 2012	5,136,918	5,137	65,780	34,964	4,873	110,754
Net loss				(538)		(538)
Other comprehensive loss, net of tax					(10,888)	(10,888)
Retirement of stock	(13,732)	(14)		(167)		(181)
Balance, December 31, 2013	5,123,186	5,123	65,780	34,259	(6,015)	99,147
Net loss				(10,004)		(10,004)
Other comprehensive income, net of tax					6,320	6,320
Cash dividend ($.10 per share)				(512)		(512)
Balance, December 31, 2014	5,123,186	$ 5,123	$ 65,780	$ 23,743	$ 305	$ 94,951

See Notes to Consolidated Financial Statements.

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31,	**2014**	**2013**	**2012**
Cash flows from operating activities:			
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	1,817	1,750	2,048
Provision for allowance for loan losses	7,404	9,661	4,264
Writedown of other real estate	1,261	670	153
(Gain) loss on sales of other real estate	(47)	63	21
Loss on impairment of other investments			360
(Income) loss on other investments	64	(42)	84
Amortization of available for sale securities	250	514	293
Accretion of held to maturity securities	(3)	(2)	(1)
Gain on liquidation, sales and calls of securities	(99)	(258)	(1,364)
Increase in cash surrender value of life insurance	(589)	(501)	(573)
Gain on sale of bank premises and equipment		(15)	
Change in accrued interest receivable	482	288	(197)
Change in other assets	810	(467)	600
Change in other liabilities	5,218	(1,122)	(211)
Net cash provided by operating activities	$ 6,564	$ 10,001	$ 8,118

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Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands)

Years Ended December 31,	2014	2013	2012
Cash flows from investing activities:			
Proceeds from maturities, liquidation, sales and calls of available for sale securities	$ 72,374	$ 142,355	$ 358,404
Purchases of available for sale securities	(1,995)	(174,588)	(337,360)
Proceeds from maturities of held to maturity securities	660	795	170
Purchases of held to maturity securities	(7,299)	(4,810)	(5,865)
Purchases of Federal Home Loan Bank Stock		(1,454)	
Redemption of Federal Home Loan Bank Stock	1,330		201
Redemption of other investments	236	230	36
Proceeds from sales of other real estate	2,115	1,125	1,546
Loans, net change	4,465	41,613	(4,794)
Acquisition of premises and equipment	(293)	(840)	(235)
Proceeds from sales of banking premises and equipment		19	
Insurance proceeds from casualty loss on other real estate		57	
Investment in cash surrender value of life insurance	(100)	(94)	(91)
Net cash provided by investing activities	71,493	4,408	12,012
Cash flows from financing activities:			
Demand and savings deposits, net change	(7,981)	(10,888)	32,110
Time deposits, net change	(27,863)	(36,273)	(24,830)
Cash dividends	(512)		(1,541)
Retirement of common stock		(181)	
Borrowings from Federal Home Loan Bank	2,013,013	868,560	2,246,717
Repayments to Federal Home Loan Bank	(2,051,989)	(798,788)	(2,292,128)
Federal funds purchased and securities sold under agreements to repurchase, net change	(15,433)	(54,595)	36,633
Net cash used in financing activities	(90,765)	(32,165)	(3,039)
Net increase (decrease) in cash and cash equivalents	(12,708)	(17,756)	17,091
Cash and cash equivalents, beginning of year	36,264	54,020	36,929
Cash and cash equivalents, end of year	$ 23,556	$ 36,264	$ 54,020

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTE A BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business of The Company

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. Its two operating subsidiaries are The Peoples Bank, Biloxi, Mississippi (the Bank), and PFC Service Corp. Its principal subsidiary is the Bank, which provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the Bank s three most outlying locations (the trade area).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Company and its subsidiaries recognize assets and liabilities, and income and expense, on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans, assumptions relating to employee and director benefit plan liabilities and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-06, *Technical Corrections and Improvements Related to Glossary Terms*. This ASU added, deleted, corrected and modified terms in the Master Glossary of the Codification and was effective upon issuance. The adoption of this ASU did not have a material effect on the Company s financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-14, Receivables Troubled Debt Restructurings by

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Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. This ASU requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if certain conditions are met. ASU No. 2014-14 is effective for annual periods and interim periods within those annual periods beginning after December 31, 2014. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern (Subtopic205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern.* This ASU defines management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 31, 2016, and interim periods within annual periods beginning after December 14, 2016. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

Cash and Due from Banks

The Company is required to maintain average reserve balances in its vault or on deposit with the Federal Reserve Bank. The average amount of these reserve requirements was approximately $417,000, $407,000 and $566,000 for the years ending December 31, 2014, 2013 and 2012, respectively.

Securities

The classification of securities is determined by Management at the time of purchase. Securities are classified as held to maturity when the Company has the positive intent and ability to hold the security until maturity. Securities held to maturity are stated at amortized cost. Securities not classified as held to maturity are classified as available for sale and are stated at fair value. Unrealized gains and losses, net of tax, on these securities are recorded in shareholders equity as accumulated other comprehensive income. The amortized cost of available for sale securities and held to maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, determined using the interest method. Such amortization and accretion is included in interest income on securities. A decline in the market value of any investment below cost that is deemed to be other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income. In estimating other-than-temporary losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and nature of the issuer, the cause of the decline, especially if related to a change in interest rates, and the intent and ability of the Company to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The specific identification method is used to determine realized gains and losses on sales of securities, which are reported as gain (loss) on sales and calls of securities in non-interest income.

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Other Investments

Other investments include a low income housing partnership in which the Company is a 99% limited partner. The partnership has qualified to receive annual low income housing federal tax credits that are recognized as a reduction of the current tax expense. The investment is accounted for using the equity method.

Federal Home Loan Bank Stock

The Company is a member of the Federal Home Loan Bank of Dallas (FHLB) and as such is required to maintain a minimum investment in its stock that varies with the level of FHLB advances outstanding. The stock is bought from and sold to the FHLB based on its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment in accordance with GAAP.

Loans

The loan portfolio consists of commercial and industrial and real estate loans within the Company s trade area that we have the intent and ability to hold for the foreseeable future or until maturity. The loan policy establishes guidelines relating to pricing; repayment terms; collateral standards including loan to value limits, appraisal and environmental standards; lending authority; lending limits and documentation requirements.

Loans are stated at the amount of unpaid principal, reduced by unearned income and the allowance for loan losses. Interest on loans is recognized on a daily basis over the terms of each loan based on the unpaid principal balance. Loan origination fees are recognized as income when received. Revenue from these fees is not material to the financial statements.

The Company continuously monitors its relationships with its loan customers in concentrated industries such as gaming and hotel/motel, as well as the exposure for out of area, land development, construction and commercial real estate loans, and their direct and indirect impact on its operations. Loan delinquencies and deposit overdrafts are monitored on a weekly basis in order to identify developing problems as early as possible. On a monthly basis, a watch list of credits based on our loan grading system is prepared. Grades of A F are applied to individual loans based on factors including repayment ability, financial condition of the borrower and payment performance. Loans with a grade of D F, as well as some loans with a grade of C, are placed on the watch list of credits. The watch list is the primary tool for monitoring the credit quality of the loan portfolio. Once loans are determined to be past due, the loan officer and the special assets department work vigorously to return the loans to a current status.

The Company places loans on a nonaccrual status when, in the opinion of Management, they possess sufficient uncertainty as to timely collection of interest or principal so as to preclude the recognition in reported earnings of some or all of the contractual interest. Accrued interest on loans classified as nonaccrual is reversed at the time the loans are placed on nonaccrual. Interest received on nonaccrual loans is applied against principal. Loans are restored to accrual status when the obligation is brought current or has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The placement of loans on and removal of loans from nonaccrual status must be approved by Management.

Loans which become 90 days delinquent are reviewed relative to collectibility. Unless such loans are in the process of terms revision to bring them to a current status or foreclosure or in the process of collection, these loans are placed on nonaccrual and, if deemed uncollectible, are charged off against the allowance for loan losses. That portion of a loan which is deemed uncollectible will be charged off against the allowance as a partial charge off. All charge offs must be approved by Management and are reported to the Board of Directors.

Allowance for Loan Losses

The allowance for loan losses (ALL) is a valuation account available to absorb losses on loans. The ALL is established through provisions for loan losses charged against earnings. Loans deemed to be uncollectible are charged against the ALL, and subsequent recoveries, if any, are credited to the allowance.

The ALL is based on Management s evaluation of the loan portfolio under current economic conditions and is an amount that Management believes will be adequate to absorb probable losses on loans existing at the reporting date. On a quarterly basis, the Company s problem asset committee meets to review the watch list of credits, which is formulated from the loan grading system. Members of this committee include loan officers, collection officers, the special assets director, the chief lending officer, the chief credit officer, the chief financial officer and the chief executive officer. The evaluation includes Management s assessment of several factors: review and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current and anticipated economic conditions and the related impact on specific borrowers and industry groups, a study of loss experience, a review of classified, nonperforming and delinquent loans, the estimated value of any underlying collateral, an estimate of the possibility of loss based on the risk characteristics of the portfolio, adverse situations that may affect the borrower s ability to repay and the results of regulatory examinations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The ALL consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component of the allowance relates to loans that are not impaired. Changes to the components of the ALL are recorded as a component of the provision for the allowance for loan losses. Management must approve changes to the ALL and must report its actions to the Board of Directors. The Company believes that its allowance for loan losses is appropriate at December 31, 2014.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company s impaired loans include troubled debt restructurings and performing and non-performing major loans for which full payment of principal or interest is not expected. Payments received for impaired loans not on nonaccrual status are applied to principal and interest.

All impaired loans are reviewed, at a minimum, on a quarterly basis. The Company calculates the specific allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of its collateral. Most of the Company s impaired loans are collateral-dependent.

The fair value of the collateral for collateral-dependent loans is based on appraisals performed by third-party valuation specialists, comparable sales and other estimates of fair value obtained principally from independent sources such as the Multiple Listing Service or county tax assessment valuations, adjusted for estimated selling costs. The Company has a Real Estate Appraisal Policy (the Policy) which is in compliance with the guidelines set forth in the Interagency Appraisal and Evaluation Guidelines which implement Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and the revised Interagency Appraisal and Evaluation Guidelines issued in 2010. The Policy further requires that appraisals be in writing and conform to the Uniform Standards of Professional Appraisal Practice (USPAP). An appraisal prepared by a state-licensed or state-certified appraiser is required on all new loans secured by real estate in excess of $250,000. Loans secured by real estate in an amount of $250,000 or less, or that qualify for an exemption under FIRREA, must have a summary appraisal report or in-house evaluation, depending on the facts and circumstances. Factors including the assumptions and techniques utilized by the appraiser, which could result in a downward adjustment to the collateral value estimates indicated in the appraisal, are considered by the Company.

When Management determines that a loan is impaired and the loan is collateral-dependent, an evaluation of the fair value of the collateral is performed. The Company maintains established criteria for assessing whether an existing appraisal continues to reflect the fair value of the property for collateral-dependent loans. Appraisals are generally considered to be valid for a period of at least twelve months. However, appraisals that are less than 12 months old may need to be adjusted. Management considers such factors as the property type, property condition, current use of the property, current market conditions and the passage of time when determining the relevance and validity of the most recent appraisal of the property. If Management determines that the most recent appraisal is no longer valid, a new appraisal is ordered from an independent and qualified appraiser.

During the interim period between ordering and receipt of the new appraisal, Management considers if the existing appraisal should be discounted to determine the estimated fair value of collateral. Discounts are applied to the existing appraisal and take into consideration the property type, condition of the property, external market data, internal data, reviews of recently obtained appraisals and evaluations of similar properties, comparable sales of similar properties and tax assessment valuations. When the new appraisal is received and approved by Management, the valuation stated in the appraisal is used as the fair value of the collateral in determining impairment, if any. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a specific component of the allowance for loan losses. Any specific reserves recorded in the interim are adjusted accordingly.

The general component of the ALL is the loss estimated by applying historical loss percentages to non-classified loans which have been divided into segments. These segments include gaming; residential and land development, real estate, construction; real estate, mortgage; commercial and industrial and all other. The loss percentages are based on each segment s historical five year average loss experience which may be adjusted by qualitative factors such as changes in the general economy, or economy or real estate market in a particular geographic area or industry.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets.

Other Real Estate

Other real estate (ORE) includes real estate acquired through foreclosure. Each other real estate property is carried at fair value, less estimated costs to sell. Fair value is principally based on appraisals performed by third-party valuation specialists. Any excess of the carrying value of the related loan over the fair value of the real estate at the date of foreclosure is charged against the ALL. Any expense incurred in connection with holding such real estate or resulting from any writedowns in value subsequent to foreclosure is included in non-interest expense. When the other real estate property is sold, a gain or loss is recognized on the sale for the difference, if any, between the sales proceeds and the carrying amount of the property. If the fair value of the ORE, less estimated costs to sell at the time of foreclosure, decreases during the holding period, the ORE is written down with a charge to non-interest expense. Generally, ORE properties are actively marketed for sale and Management is continuously monitoring these properties in order to minimize any losses.

Trust Department Income and Fees

Corporate trust fees are accounted for on an accrual basis and personal trust fees are recorded when received.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss carry forwards, is required to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company s assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company currently evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred and the amount of such loss can be reasonably estimated.

Post-Retirement Benefit Plan

The Company accounts for its post-retirement benefit plan under Accounting Standards Codification (Codification or ASC) Topic 715, Retirement Benefits (ASC 715). The under or over funded status of the Company s post-retirement benefit plan is recognized as a liability or asset in the statement of condition. Changes in the plan s funded status are reflected in other comprehensive income. Net actuarial gains and losses and adjustments to prior service costs that are not recorded as components of the net periodic benefit cost are charged to other comprehensive income.

Earnings Per Share

Basic and diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, 5,123,186 in 2014, 5,128,889 in 2013 and 5,136,918, in 2012.

Accumulated Other Comprehensive Income (Loss)

At December 31, 2014, 2013 and 2012, accumulated other comprehensive income (loss) consisted of net unrealized gains (losses) on available for sale securities and over (under) funded liabilities related to the Company s post-retirement benefit plan.

Statements of Cash Flows

The Company has defined cash and cash equivalents to include cash and due from banks and federal funds sold. The Company paid $1,447,133, $1,470,945 and $2,082,914 in 2014, 2013 and 2012, respectively, for interest on deposits and borrowings. Income tax payments totaled $320,000, $810,000 and $835,000 in 2014, 2013 and 2012, respectively. Loans transferred to other real estate amounted to $1,345,170, $4,536,710 and $2,575,520 in 2014, 2013 and 2012, respectively. Dividends payable of $513,692 as of December 31, 2011 were paid during the year ended December 31, 2012.

Fair Value Measurement

The Company reports certain assets and liabilities at their estimated fair value. These assets and liabilities are classified and disclosed in one of three categories based on the inputs used to develop the measurements. The categories establish a hierarchy for ranking the quality and reliability of the information used to determine fair value.

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Reclassification

Certain reclassifications have been made to the prior year statements to conform to current year presentation. The reclassifications had no effect on prior year net income.

NOTE B SECURITIES:

The amortized cost and fair value of securities at December 31, 2014, 2013 and 2012, respectively, are as follows (in thousands):

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 29,787	$ 27	$ (160)	$ 29,654
U.S. Government agencies	119,805	115	(1,931)	117,989
Mortgage-backed securities	35,671	282	(136)	35,817
States and political subdivisions	29,832	1,180		31,012
Total debt securities	215,095	1,604	(2,227)	214,472
Equity securities	650			650
Total available for sale securities	$ 215,745	$ 1,604	$ (2,227)	$ 215,122
Held to maturity securities:				
States and political subdivisions	$ 17,784	$ 132	$ (57)	$ 17,859
Total held to maturity securities	$ 17,784	$ 132	$ (57)	$ 17,859

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December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 44,636	$ 54	$ (1,042)	$ 43,648
U.S. Government agencies	155,772	734	(10,701)	145,805
Mortgage-backed securities	51,454	141	(1,269)	50,326
States and political subdivisions	33,764	1,248	(1)	35,011
Total debt securities	285,626	2,177	(13,013)	274,790
Equity securities	650			650
Total available for sale securities	$ 286,276	$ 2,177	$ (13,013)	$ 275,440
Held to maturity securities:				
States and political subdivisions	$ 11,142	$ 13	$ (469)	$ 10,686
Total held to maturity securities	$ 11,142	$ 13	$ (469)	$ 10,686

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December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 53,661	$ 490	$ (55)	$ 54,096
U.S. Government agencies	147,652	1,810	(364)	149,098
Mortgage-backed securities	16,903	538		17,441
States and political subdivisions	35,433	2,158		37,591
Total debt securities	253,649	4,996	(419)	258,226
Equity securities	650			650
Total available for sale securities	$ 254,299	$ 4,996	$ (419)	$ 258,876
Held to maturity securities:				
States and political subdivisions	$ 7,125	$ 112	$ (12)	$ 7,225
Total held to maturity securities	$ 7,125	$ 112	$ (12)	$ 7,225

The amortized cost and fair value of debt securities at December 31, 2014, (in thousands) by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 5,715	$ 5,762
Due after one year through five years	61,539	61,738
Due after five years through ten years	52,867	52,627
Due after ten years	59,303	58,528
Mortgage-backed securities	35,671	35,817
Totals	$ 215,095	$ 214,472
Held to maturity securities:		
Due in one year or less	$ 211	$ 211
Due after one year through five years	3,964	3,976
Due after five years through ten years	8,118	8,179
Due after ten years	5,491	5,493
Totals	$ 17,784	$ 17,859

Available for sale and held to maturity securities with gross unrealized losses at December 31, 2014, 2013 and 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

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	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2014:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasuries	$ 4,968	$ 15	$ 14,795	$ 145	$ 19,763	$ 160
U.S. Government agencies	9,954	22	92,923	1,909	102,877	1,931
Mortgage-backed securities			19,436	136	19,436	136
States and political subdivisions	5,485	32	1,444	25	6,929	57
TOTAL	$ 20,407	$ 69	$ 128,598	$ 2,215	$ 149,005	$ 2,284
December 31, 2013:						
U.S. Treasuries	$ 29,708	$ 1,042	$	$	$ 29,708	$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
TOTAL	$ 195,113	$ 13,103	$ 4,621	$ 379	$ 199,734	$ 13,482
December 31, 2012:						
U.S. Treasuries	$ 9,887	$ 55	$	$	$ 9,887	$ 55
U.S. Government agencies	30,335	364			30,335	364
States and political subdivisions	1,451	12			1,451	12
TOTAL	$ 41,673	$ 431	$	$	$ 41,673	$ 431

At December 31, 2014, 4 of the 8 securities issued by the U.S. Treasury, 19 of the 24 securities issued by U.S. Government agencies, 5 of the 10 mortgage-backed securities and 20 of the 152 securities issued by states and political subdivisions contained unrealized losses.

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Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost, the fact that the Company s securities are primarily issued by U.S. Treasury and U.S. Government Agencies and the cause of the decline in value are considered. In addition, the Company does not intend to sell and it is not more likely than not that we will be required to sell these securities before maturity. While some available for sale securities have been sold for liquidity purposes or for gains, the Company has traditionally held its securities, including those classified as available for sale, until maturity. As a result of this evaluation, the Company has determined that the declines summarized in the tables above are not deemed to be other-than-temporary.

Proceeds from sales of available for sale debt securities were $44,279,605, $26,075,225 and $77,605,104 during 2014, 2013 and 2012, respectively. Available for sale debt securities were sold and called for realized gains of $98,859, $257,997 and $1,363,802 during 2014, 2013 and 2012, respectively. The Company recorded a loss from the impairment of its other investments of $360,000 in 2012.

Securities with a fair value of $200,474,637, $262,830,011 and $241,879,775 at December 31, 2014, 2013 and 2012, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

NOTE C - LOANS:

The composition of the loan portfolio at December 31, 2014, 2013 and 2012 is as follows (in thousands):

December 31,	2014	2013	2012
Gaming	$ 31,353	$ 29,570	$ 60,187
Residential and land development	10,119	19,403	27,338
Real estate, construction	34,010	44,987	52,586
Real estate, mortgage	240,341	237,158	246,420
Commercial and industrial	31,906	35,007	35,004
Other	14,678	9,224	9,548
Total	$ 362,407	$ 375,349	$ 431,083

In the ordinary course of business, the Company s bank subsidiary extends loans to certain officers and directors and their personal business interests at, in the opinion of Management, the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans of similar credit risk with persons not related to the Company or its subsidiaries. These loans do not involve more than normal risk of collectibility and do not include other unfavorable features. An analysis of the activity with respect to such loans to related parties is as follows (in thousands):

Years Ended December 31,	2014	2013	2012
Balance, January 1	$ 6,761	$ 6,310	$ 5,681
New loans and advances	2,516	1,647	3,755
Repayments	(1,517)	(1,196)	(3,126)
Balance, December 31	$ 7,760	$ 6,761	$ 6,310

As part of its evaluation of the quality of the loan portfolio, Management monitors the Company s credit concentrations on a monthly basis. Total outstanding concentrations were as follows (in thousands):

December 31,	2014	2013	2012
Gaming	$ 31,353	$ 29,570	$ 60,187
Hotel/motel	47,144	49,842	52,776
Out of area	19,179	24,945	25,413

The age analysis of the loan portfolio, segregated by class of loans, as of December 31, 2014, 2013 and 2012 is as follows (in thousands):

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	Number of Days Past Due						Loans Past Due Greater Than 90 Days and Still Accruing
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	
December 31, 2014:							
Gaming	$	$	$	$	$ 31,353	$ 31,353	$
Residential and land development			5,262	5,262	4,857	10,119	
Real estate, construction	1,665	85	1,944	3,694	30,316	34,010	30
Real estate, mortgage	3,502	3,101	12,007	18,610	221,731	240,341	733
Commercial and industrial	909	7	205	1,121	30,785	31,906	
Other	168	10		178	14,500	14,678	
Total	$ 6,244	$ 3,203	$ 19,418	$ 28,865	$ 333,542	$ 362,407	$ 763
December 31, 2013:							
Gaming	$	$	$	$	$ 29,570	$ 29,570	$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	$ 12,226	$ 2,689	$ 28,158	$ 43,073	$ 332,276	$ 375,349	$ 651
December 31, 2012:							
Gaming	$	$ 1,721	$	$ 1,721	$ 58,466	$ 60,187	$
Residential and land			5,765	5,765	21,573	27,338	

development							
Real estate, construction	3,989	878	6,151	11,018	41,568	52,586	572
Real estate, mortgage	12,012	2,702	7,605	22,319	224,101	246,420	872
Commercial and industrial	1,804	79	107	1,990	33,014	35,004	
Other	127	26	1	154	9,394	9,548	1
Total	$ 17,932	$ 5,406	$ 19,629	$ 42,967	$ 388,116	$ 431,083	$ 1,445

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 5 is assigned to the loan based on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources

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of repayment which have little identifiable risk of collection. Loans with a grade of C may be placed on the watch list if weaknesses are not resolved which could result in potential loss or for other circumstances that require monitoring. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of December 31, 2014, 2013 and 2012 is as follows (in thousands):

	Loans With A Grade Of:					
	A or B	C	D	E	F	Total
December 31, 2014:						
Gaming	$ 8,400	$ 22,953	$	$	$	$ 31,353
Residential and land development	3,520	1,319	17	5,263		10,119
Real estate, construction	27,474	723	2,496	3,317		34,010
Real estate, mortgage	197,086	4,051	16,591	22,613		240,341
Commercial and industrial	26,877	25	1,579	3,425		31,906
Other	14,583	6	89			14,678
Total	$ 277,940	$ 29,077	$ 20,772	$ 34,618	$	$ 362,407
December 31, 2013:						
Gaming	$ 23,975	$ 2,500	$	$ 3,095	$	$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	$ 312,621	$ 10,026	$ 22,575	$ 30,127	$	$ 375,349
December 31, 2012:						
Gaming	$ 27,530	$ 12,300	$ 4,108	$ 16,249	$	$ 60,187

Residential and land development	4,630	1,544	81	21,083		27,338
Real estate, construction	43,318	1,001	2,701	5,566		52,586
Real estate, mortgage	209,479	3,093	21,167	12,681		246,420
Commercial and industrial	32,036	442	2,312	214		35,004
Other	9,449	27	72			9,548
Total	$ 326,442	$ 18,407	$ 30,441	$ 55,793	$	$ 431,083

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A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of December 31, 2014, 2013 and 2012 are as follows (in thousands):

December 31,	2014	2013	2012
Gaming	$	$ 1,223	$ 16,249
Residential and land development	8,233	13,572	21,083
Real estate, construction	3,287	2,588	5,171
Real estate, mortgage	21,398	8,788	11,174
Commercial and industrial	380		214
Total	$ 33,298	$ 26,171	$ 53,891

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of December 31, 2014, 2013 and 2012, were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
December 31, 2014:				
Real estate, mortgage	2	$ 837	$ 837	$ 50
Total	2	$ 837	$ 837	$ 50
December 31, 2013:				
Real estate, construction	2	$ 891	$ 891	$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	$ 11,581	$ 11,581	$ 1,264
December 31, 2012:				
Real estate, construction	3	$ 1,095	$ 1,095	$ 340
Real estate, mortgage	3	9,054	9,054	957
Commercial and industrial	1	702	702	

Total	7	$	10,851	$	10,851	$	1,297

During 2013, the Company classified four additional loans as troubled debt restructurings. The loans are included in the real estate, mortgage segment and had a total balance of $1,652,903 when they were modified. During 2013, two loans which had been classified as troubled debt restructurings at December 31, 2012 became in default of their modified terms and were placed on nonaccrual. These

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loans included one loan that was included in the real estate, construction segment with a balance of $182,164 and one loan that was included in the real estate, mortgage segment with a balance of $527,677 as of December 31, 2012. During 2014, seven loans which had been classified as troubled debt restructurings at December 31, 2013 became in default of their modified terms and were placed on nonaccrual. These loans included two loans that were included in the real estate, construction segment with a total balance of $891,782, four loans that were included in the real estate, mortgage segment with a total balance of $9,136,954 and one loan that was included in the commercial and industrial segment with a balance of $677,901 as of December 31, 2013.

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of December 31, 2014, 2013 and 2012 were as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014:					
With no related allowance recorded:					
Residential and land development	$ 9,513	$ 8,233	$	$ 8,380	$
Real estate, construction	2,198	2,178		2,222	
Real estate, mortgage	19,517	16,243		18,258	26
Commercial and industrial	380	380		384	
Total	31,608	27,034		29,244	26
With a related allowance recorded:					
Real estate, construction	1,109	1,109	422	1,115	
Real estate, mortgage	6,591	5,992	2,135	5,996	9
Total	7,700	7,101	2,557	7,111	9
Total by class of loans:					
Residential and land development	9,513	8,233		8,380	
Real estate, construction	3,307	3,287	422	3,337	
Real estate, mortgage	26,108	22,235	2,135	24,254	35
Commercial and industrial	380	380		384	
Total	$ 39,308	$ 34,135	$ 2,557	$ 36,355	$ 35

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013:					
With no related allowance recorded:					
Residential and land development	$ 4,425	$ 4,425	$	$ 4,465	$
Real estate, construction	2,294	2,294		2,054	26
Real estate, mortgage	9,722	9,123		9,097	26
Commercial and industrial	678	678		689	24
Total	17,119	16,520		16,305	76
With a related allowance recorded:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	17,576	9,147	471	15,909	
Real estate, construction	1,185	1,185	337	1,239	23
Real estate, mortgage	9,677	9,677	1,110	8,801	306
Total	30,136	21,232	2,544	27,265	329
Total by class of loans:					
Gaming	1,698	1,223	626	1,316	
Residential and land development	22,001	13,572	471	20,374	
Real estate, construction	3,479	3,479	337	3,293	49
Real estate, mortgage	19,399	18,800	1,110	17,898	332
Commercial and industrial	678	678		689	24
Total	$ 47,255	$ 37,752	$ 2,544	$ 43,570	$ 405

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012:					
With no related allowance recorded:					
Gaming	$ 14,528	$ 14,528	$	$ 14,869	$
Residential and land development	21,837	20,733		21,288	
Real estate, construction	4,635	4,580		3,833	
Real estate, mortgage	9,971	9,935		9,821	
Commercial and industrial	892	892		791	23
Total	51,863	50,668		50,602	23
With a related allowance recorded:					
Gaming	1,721	1,721	1,100		
Residential and land development	350	350	70	350	
Real estate, construction	1,694	1,686	663	1,314	8
Real estate, mortgage	10,893	10,293	1,229	10,199	319
Commercial and industrial	24	24	12		
Total	14,682	14,074	3,074	11,863	327
Total by class of loans:					
Gaming	16,249	16,249	1,100	14,869	
Residential and land development	22,187	21,083	70	21,638	
Real estate, construction	6,329	6,266	663	5,147	8
Real estate, mortgage	20,864	20,228	1,229	20,020	319
Commercial and industrial	916	916	12	791	23
Total	$ 66,545	$ 64,742	$ 3,074	$ 62,465	$ 350

Transactions in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012, and the balances of loans, individually and collectively evaluated for impairment, as of December 31, 2014, 2013 and 2012 are as follows (in thousands):

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	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2014:							
Allowance for Loan Losses:							
Beginning Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Charge-offs	(992)	(2,060)	(127)	(368)	(3,948)	(235)	(7,730)
Recoveries	260		35	193	20	90	598
Provision	328	1,535	257	1,231	3,883	170	7,404
Ending Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$	$	$ 742	$ 2,706	$ 289	$ 6	$ 3,743
Ending balance: collectively evaluated for impairment	$ 573	$ 251	$ 118	$ 3,903	$ 298	$ 320	$ 5,463
Total Loans:							
Ending balance: individually							
Ending Balance: Individually evaluated for impairment	$	$ 7,232	$ 6,830	$ 39,204	$ 2,035	$ 89	$ 55,390
Ending balance: collectively	$ 31,353	$ 2,887	$ 27,180	$ 201,137	$ 29,871	$ 14,589	$ 307,017

evaluated for impairment							
December 31, 2013:							
Allowance for Loan Losses:							
Beginning Balance	$ 1,541	$ 200	$ 967	$ 5,273	$ 593	$ 283	$ 8,857
Charge-offs	(474)	(7,325)	(1,013)	(1,048)	(24)	(238)	(10,122)
Recoveries	110	67	97	150	26	88	538
Provision	(200)	7,834	644	1,178	37	168	9,661
Ending Balance	$ 977	$ 776	$ 695	$ 5,553	$ 632	$ 301	$ 8,934
Allowance for Loan Losses:							
Ending balance: individually evaluated for impairment	$ 626	$ 471	$ 615	$ 1,698	$ 342	$ 33	$ 3,785
Ending balance: collectively evaluated for impairment	$ 351	$ 305	$ 80	$ 3,855	$ 290	$ 268	$ 5,149
Total Loans:							
Ending balance: individually evaluated for impairment	$ 3,095	$ 13,624	$ 5,399	$ 28,094	$ 2,423	$ 69	$ 52,704
Ending balance: collectively evaluated for impairment	$ 26,475	$ 5,779	$ 39,588	$ 209,064	$ 32,584	$ 9,155	$ 322,645

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	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
December 31, 2012:							
Allowance for Loan Losses:							
Beginning Balance	$ 457	$ 1,081	$ 937	$ 4,800	$ 557	$ 304	$ 8,136
Charge-offs	(275)	(1,103)	(474)	(1,348)	(203)	(273)	(3,676)
Recoveries				7	41	85	133
Provision	1,359	222	504	1,814	198	167	4,264
Ending Balance	$ 1,541	$ 200	$ 967	$ 5,273	$ 593	$ 283	$ 8,857
Allowance for loan losses							
Ending balance: individually evaluated for impairment	$ 1,100	$	$ 922	$ 1,758	$ 300	$ 35	$ 4,115
Ending balance: collectively evaluated for impairment	$ 441	$ 200	$ 45	$ 3,515	$ 293	$ 248	$ 4,742
Total Loans							
Ending balance: individually evaluated for impairment	$ 20,357	$ 21,165	$ 8,267	$ 33,848	$ 2,525	$ 72	$ 86,234
Ending balance: collectively evaluated for impairment	$ 39,830	$ 6,173	$ 44,319	$ 212,572	$ 32,479	$ 9,476	$ 344,849

NOTE D BANK PREMISES AND EQUIPMENT:

Bank premises and equipment are shown as follows (in thousands):

December 31,	Estimated Useful Lives	2014	2013	2012
Land		$ 5,982	$ 5,982	$ 5,985
Building	5 - 40 years	30,593	30,540	30,504
Furniture, fixtures and equipment	3 - 10 years	15,511	15,272	14,487
Totals, at cost		52,086	51,794	50,976
Less: Accumulated depreciation		28,302	26,486	24,754
Totals		$ 23,784	$ 25,308	$ 26,222

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NOTE E OTHER REAL ESTATE:

The Company s other real estate consisted of the following as of December 31, 2014, 2013 and 2012, respectively (in thousands except number of properties):

December 31,	2014		2013		2012	
	Number of Properties	Balance	Number of Properties	Balance	Number of Properties	Balance
Construction, land development and other land	15	$ 5,034	18	$ 4,887	11	$ 2,834
1 - 4 family residential properties	10	431	6	180	6	576
Nonfarm nonresidential	14	2,030	17	4,563	14	3,573
Other	1	151			1	25
Total	40	$ 7,646	41	$ 9,630	32	$ 7,008

NOTE F DEPOSITS:

At December 31, 2014, the scheduled maturities of time deposits are as follows (in thousands):

2015	$53,508
2016	7,609
2017	10,333
2018	3,073
2019	2,050
Total	$76,573

Time deposits of $100,000 or more at December 31, 2014 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $25,321,000, $49,773,000 and $79,423,000 at December 31, 2014, 2013 and 2012, respectively.

Deposits held for related parties amounted to $6,607,646, $7,511,446 and $8,720,550 at December 31, 2014, 2013 and 2012, respectively.

Overdrafts totaling $822,730, $764,262 and $1,435,922 were reclassified as loans at December 31, 2014, 2013 and 2012, respectively.

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NOTE G FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

At December 31, 2014, the Company had facilities in place to purchase federal funds up to $40,000,000 under established credit arrangements. At December 31, 2014, 2013 and 2012, federal funds purchased and securities sold under agreements to repurchase included only funds invested by customers in a non-deposit product of the bank subsidiary. These accounts are non-insured, non-deposit accounts which allow customers to earn interest on their account with no restrictions as to the number of transactions. They are set up as sweep accounts with no check-writing capabilities and require the customer to have at least one operating deposit account.

NOTE H BORROWINGS:

At December 31, 2014, the Company was able to borrow up to $38,845,590 from the Federal Reserve Bank Discount Window Primary Credit Program. The borrowing limit is based on the amount of collateral pledged, with certain loans from the Bank s portfolio serving as collateral. Borrowings bear interest at 25 basis points over the current fed funds rate and have a maturity of one day. There was no outstanding balance at December 31, 2014.

At December 31, 2014, the Company had $38,707,935 outstanding in advances under a $97,649,565 line of credit with the FHLB. One advance in the amount of $5,000,000 bears interest at a variable rate of 43.2 basis points above the 1 month LIBOR rate, which was .593% at December 31, 2014, and matures in 2017. An additional advance in the amount of $30,000,000 bears interest at .08% matured in January of 2015. New advances may subsequently be obtained based on the liquidity needs of the bank subsidiary. The remaining balance consists of smaller advances bearing interest from 2.604% to 7.00% with maturity dates from 2015 2042. The advances are collateralized by a blanket floating lien on a substantial portion of the Company s real estate loans.

NOTE I INCOME TAXES:

Deferred taxes (or deferred charges) as of December 31, 2014, 2013 and 2012, included in other assets or other liabilities, were as follows (in thousands):

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December 31,	2014	2013	2012
Deferred tax assets:			
Allowance for loan losses	$ 3,130	$ 3,037	$ 3,011
Employee benefit plans liabilities	4,490	4,326	4,135
Unrealized loss on available for sale securities, charged from equity	210	3,684	
Earned retiree health benefits plan liability	1,638	1,638	1,673
General business and AMT credits	1,735		
Tax net operating loss carryforward	651		
Other	1,637	1,218	1,170
Valuation allowance	(8,140)		
Deferred tax assets	5,351	13,903	9,989
Deferred tax liabilities:			
Unrealized gain on available for sale securities, charged to equity			1,556
Unearned retiree health benefits plan asset	362	579	948
Bank premises and equipment	4,760	5,075	5,366
Other	229	129	92
Deferred tax liabilities	5,351	5,783	7,962
Net deferred taxes	$	$ 8,120	$ 2,027

Income taxes consist of the following components (in thousands):

Years Ended December 31,	2014	2013	2012
Current	$ (137)	$ (1,717)	$ 1,425
Deferred:			
Federal	(3,277)	(484)	(1,517)
Change in valuation allowance	8,140		
Total deferred	4,863	(484)	(1,517)
Totals	$ 4,726	$ (2,201)	$ (92)

Income taxes amounted to less than the amounts computed by applying the U.S. Federal income tax rate of 34.0% for 2014, 2013 and 2012 to income (loss) before income taxes. The reasons for these differences are shown below (in thousands):

	2014		2013		2012	
	Tax	Rate	Tax	Rate	Tax	Rate
Taxes computed at statutory rate	$ (1,794)	(34)	$ (931)	(34)	$ 867	34
Increase (decrease) resulting from:						
Tax-exempt interest income	(532)	(10)	(539)	(20)	(532)	(21)
Income from BOLI	(200)	(4)	(170)	(6)	(195)	(8)
Federal tax credits	(298)	(6)	(298)	(11)	(372)	(15)
Other	(590)	(10)	(263)	(9)	140	6
Change in valuation allowance	8,140	154				
Total income tax expense (benefit)	$ 4,726	90	$ (2,201)	(80)	$ (92)	(4)

A valuation allowance is recognized against deferred tax assets when, based on the consideration of all available positive and negative evidence using a more likely than not criteria, it is determined that all or a portion of these tax benefits may not be realized. This assessment requires consideration of all sources of taxable income available to realize the deferred tax asset including taxable income in prior carry-back years, future reversals of existing temporary differences, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. The Company incurred losses on a cumulative basis for the three-year period ended December 31, 2014, which is considered to be significant negative evidence. The positive evidence considered in support was insufficient to overcome this negative evidence. As a result, the Company established a full valuation allowance for its net deferred tax asset in the amount of $8,140,000 as of December 31, 2014.

If not utilized, the Company s federal net operating loss of $1,900,000 will expire in 2034.

The Company has reviewed its income tax positions and specifically considered the recognition and measurement requirements of the benefits recorded in its financial statements for tax positions taken or expected to be taken in its tax returns. The Company currently has no unrecognized tax benefits that, if recognized, would favorably affect the income tax rate in future periods.

NOTE J SHAREHOLDERS EQUITY:

Shareholders equity of the Company includes the undistributed earnings of the bank subsidiary. Dividends to the Company s shareholders can generally be paid only from dividends paid to the Company by its bank subsidiary. Consequently, dividends are dependent upon the earnings, capital needs, regulatory policies and statutory limitations affecting the bank subsidiary. Dividends paid by the bank subsidiary are subject to the written approval of the Commissioner of Banking and Consumer Finance of the State of Mississippi and the Federal Deposit Insurance Corporation (the FDIC). At December 31, 2014, $15,403,607 of undistributed earnings of the bank subsidiary included in consolidated surplus and retained earnings was available for future distribution to the Company as dividends. Dividends paid by the Company are subject to the written approval of the Federal Reserve Bank (FRB).

On February 25, 2009, the Board approved the repurchase of up to 3% of the outstanding shares of the Company s common stock. As a result of this repurchase plan, 47,756 shares have been repurchased and retired through December 31, 2014.

The Company and the bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines must be met that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the bank subsidiary and the Company are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the bank subsidiary to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets.

As of December 31, 2014, the most recent notification from the FDIC categorized the bank subsidiary as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the bank subsidiary must have a Total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 6.00% or greater and a Leverage capital ratio of 5.00% or greater. There are no conditions or events since that notification that Management believes have changed the bank subsidiary s category.

The Company s actual capital amounts and ratios and required minimum capital amounts and ratios for 2014, 2013 and 2012, are as follows (in thousands):

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	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2014:				
Total Capital (to Risk Weighted Assets)	$ 100,243	21.95%	$ 36,528	8.00%
Tier 1 Capital (to Risk Weighted Assets)	94,493	20.70%	18,264	4.00%
Tier 1 Capital (to Average Assets)	94,493	13.29%	28,437	4.00%
December 31, 2013:				
Total Capital (to Risk Weighted Assets)	$ 111,141	22.79%	$ 39,022	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,009	21.54%	19,511	4.00%
Tier 1 Capital (to Average Assets)	105,009	13.48%	31,170	4.00%
December 31, 2012:				
Total Capital (to Risk Weighted Assets)	$ 112,342	21.29%	$ 42,216	8.00%
Tier 1 Capital (to Risk Weighted Assets)	105,728	20.04%	21,108	4.00%
Tier 1 Capital (to Average Assets)	105,728	13.07%	32,361	4.00%

The bank subsidiary s actual capital amounts and ratios and required minimum capital amounts and ratios and capital amounts and ratios to be well capitalized for 2014, 2013 and 2012, are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 96,427	21.28%	$ 36,247	8.00%	$ 45,309	10.00%
Tier 1 Capital (to Risk Weighted Assets)	90,720	20.02%	18,124	4.00%	27,186	6.00%
Tier 1 Capital (to Average Assets)	90,720	13.15%	27,599	4.00%	34,499	5.00%
December 31, 2013:						
Total Capital (to Risk Weighted Assets)	$ 106,870	21.94%	$ 38,968	8.00%	$ 48,711	10.00%
Tier 1 Capital (to Risk Weighted Assets)	100,746	20.69%	19,484	4.00%	29,227	6.00%
Tier 1 Capital (to Average Assets)	100,746	13.02%	30,958	4.00%	38,697	5.00%
December 31, 2012:						
Total Capital (to Risk Weighted Assets)	$ 107,885	20.47%	$ 42,148	8.00%	$ 52,685	10.00%
Tier 1 Capital (to Risk Weighted Assets)	101,241	19.22%	21,074	4.00%	31,611	6.00%
Tier 1 Capital (to Average Assets)	101,241	12.62%	32,086	4.00%	40,108	5.00%

In July 2013, the Federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule establishes a new

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common equity Tier 1 minimum capital requirement, increases the minimum capital ratios and assigns a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes transition periods that generally implement the new regulations over a five year period. These changes will be phased in beginning in January 2015, and while management continues to evaluate this final rule and its potential impact, preliminary assessments indicate that the Bank and the Company will continue to exceed all regulatory capital requirements under the new rule.

NOTE K - OTHER INCOME AND EXPENSES:

Other income consisted of the following (in thousands):

Years Ended December 31,		2014		2013		2012
Other service charges, commissions and fees	$	84	$	74	$	83
Rentals		435		433		442
Other		113		100		142
Totals	$	632	$	607	$	667

Other expenses consisted of the following (in thousands):

Years Ended December 31,		2014		2013		2012
Advertising	$	552	$	596	$	489
Data processing		1,339		1,254		1,434
FDIC and state banking assessments		1,033		870		503
Legal and accounting		493		535		511
Other real estate		1,610		963		648
ATM expense		2,409		2,367		2,033
Trust expense		323		332		314
Other		1,890		1,876		1,813
Totals	$	9,649	$	8,793	$	7,745

NOTE L - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and irrevocable letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the bank subsidiary has in particular classes of financial instruments. The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and irrevocable letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the agreement. Irrevocable letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments and irrevocable letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments and irrevocable letters of credit may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluated each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on Management s credit evaluation of the customer. Collateral obtained varies but may include equipment, real property and inventory.

The Company generally grants loans to customers in its trade area.

At December 31, 2014, 2013 and 2012, the Company had outstanding irrevocable letters of credit aggregating $1,879,678, $3,059,011 and $3,599,011, respectively. At December 31, 2014, 2013 and 2012, the Company had outstanding unused loan commitments aggregating $66,663,320, $68,171,024 and $80,741,699, respectively. Approximately $35,753,000, $38,324,000 and $46,956,000 of outstanding commitments were at fixed rates and the remainder was at variable rates at December 31, 2014, 2013 and 2012, respectively.

NOTE M - CONTINGENCIES:

The Bank is involved in various legal matters and claims which are being defended and handled in the ordinary course of business. None of these matters is expected, in the opinion of Management, to have a material adverse effect upon the financial position or results of operations of the Company.

NOTE N - CONDENSED PARENT COMPANY ONLY FINANCIAL INFORMATION:

Peoples Financial Corporation began its operations September 30, 1985, when it acquired all the outstanding stock of The Peoples Bank, Biloxi, Mississippi. A condensed summary of its financial information is shown below.

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CONDENSED BALANCE SHEETS (IN THOUSANDS):

December 31,	2014	2013	2012
Assets			
Investments in subsidiaries, at underlying equity:			
Bank subsidiary	$ 91,179	$ 94,883	$ 106,266
Nonbank subsidiary	1	1	1
Cash in bank subsidiary	160	487	360
Other assets	3,611	3,937	4,288
Total assets	$ 94,951	$ 99,308	$ 110,915
Liabilities and Shareholders Equity:			
Other liabilities	$	$ 161	$ 161
Total liabilities		161	161
Shareholders equity	94,951	99,147	110,754
Total liabilities and shareholders equity	$ 94,951	$ 99,308	$ 110,915

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CONDENSED STATEMENTS OF OPERATIONS (IN THOUSANDS):

Years Ended December 31,	2014	2013	2012
Income			
Earnings of unconsolidated bank subsidiary:			
Distributed earnings	$	$	$ 1,150
Undistributed earnings (loss)	(10,025)	(494)	1,845
Loss on impairment of other investments			(360)
Other income	(53)	57	(71)
Total income (loss)	(10,078)	(437)	2,564
Expenses			
Other	124	122	105
Total expenses	124	122	105
Income (loss) before income taxes	(10,202)	(559)	2,459
Income tax benefit	(198)	(21)	(182)
Net income (loss)	$ (10,004)	$ (538)	$ 2,641

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CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS):

Years Ended December 31,	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ (10,004)	$ (538)	$ 2,641
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
(Income) loss on other investments	64	(42)	84
Loss on impairment of other investments			360
Undistributed (income) loss of unconsolidated subsidiaries	10,025	494	(1,845)
Other assets	25	164	(182)
Other liabilities	(161)		(1)
Net cash provided by (used in) operating activities	(51)	78	1,057
Cash flows from investing activities:			
Redemption of equity securities	236	230	36
Net cash provided by investing activities	236	230	36
Cash flows from financing activities:			
Retirement of stock		(181)	
Dividends paid	(512)		(1,541)
Net cash used in financing activities	(512)	(181)	(1,541)
Net increase (decrease) in cash	(327)	127	(448)
Cash, beginning of year	487	360	808
Cash, end of year	$ 160	$ 487	$ 360

The Company paid income taxes of $320,000, $810,000 and $835,000 in 2014, 2013 and 2012, respectively. No interest was paid during the three years ended December 31, 2014.

NOTE O - EMPLOYEE AND DIRECTOR BENEFIT PLANS:

The Company sponsors the Peoples Financial Corporation Employee Stock Ownership Plan (ESOP). Employees who are in a position requiring at least 1,000 hours of service during a plan year and who are 21 years of age are eligible to participate in the ESOP. The Plan included 401(k) provisions and the former Gulf National Bank Profit Sharing Plan.

Effective January 1, 2001, the ESOP was amended to separate the 401(k) funds into the Peoples Financial Corporation 401(k) Profit Sharing Plan. The separation had no impact on the eligibility or benefits provided to participants of either plan. The 401(k) provides for a matching contribution of 75% of the amounts

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contributed by the employee (up to 6% of compensation). Contributions are determined by the Board of Directors and may be paid either in cash or Peoples Financial Corporation capital stock. Total contributions to the plans charged to operating expense were $280,000, $220,000 and $330,000 in 2014, 2013 and 2012, respectively.

Compensation expense of $7,678,640, $7,594,790 and $7,691,059 was the basis for determining the ESOP contribution allocation to participants for 2014, 2013 and 2012, respectively. The ESOP held 315,269, 359,030 and 383,141 allocated shares at December 31, 2014, 2013 and 2012, respectively.

The Company established an Executive Supplemental Income Plan and a Directors Deferred Income Plan, which provide for pre-retirement and post-retirement benefits to certain key executives and directors. Benefits under the Executive Supplemental Income Plan are based upon the position and salary of the officer at retirement or death. Normal retirement benefits under the plan are equal to 67% of salary for the president and chief executive officer, 58% of salary for the executive vice president and 50% of salary for all other executive officers and are payable monthly over a period of fifteen years. Under the Directors Deferred Income Plan, the directors are given an opportunity to defer receipt of their annual directors fees until age sixty-five. For those who choose to participate, benefits are payable monthly for ten years beginning the first day of the month following the director s normal retirement date. The normal retirement date is the later of the normal retirement age (65) or separation of service. Interest on deferred fees accrues at an annual rate of ten percent, compounded annually. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $16,370,384, $15,824,497 and $15,363,241 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans, using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the interest ramp-up method in 2014, 2013 and 2012, has been accrued. The accrual amounted to $11,465,119, $11,004,738 and $10,572,681 at December 31, 2014, 2013 and 2012, respectively, and is included in Employee and director benefit plans liabilities.

The Company also has additional plans for non-vested post-retirement benefits for certain key executives. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $1,346,910, $1,218,175 and $1,105,741 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $1,450,280, $1,435,554, and $1,328,657 at December 31, 2014, 2013 and 2012, respectively, and is included in Employee and director benefit plans liabilities.

Additionally, there are two endorsement split dollar policies, with the bank subsidiary as owner and beneficiary, which provide a guaranteed death benefit to the participants beneficiaries. These contracts are carried at their cash surrender value, which amounted to $277,278, $269,271 and

$262,466 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013, and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $80,997, $78,759 and $68,253 at December 31, 2014, 2013 and 2012, respectively, and is included in Employee and director benefit plans liabilities.

The Company has additional plans for non-vested post-retirement benefits for directors. The Company has acquired insurance policies, with the bank subsidiary as owner and beneficiary, which it may use as a source to pay potential benefits to the plan participants. These contracts are carried at their cash surrender value, which amounted to $150,687, $138,001 and $129,367 at December 31, 2014, 2013 and 2012, respectively. The present value of accumulated benefits under these plans using an interest rate of 4.50% in 2014 and 2013 and 5.25% in 2012, and the projected unit cost method has been accrued. The accrual amounted to $210,207, $206,650 and $192,528 at December 31, 2014, 2013 and 2012, respectively, and is included in Employee and director benefit plans liabilities.

The Company provides post-retirement health insurance to certain of its retired employees. Employees are eligible to participate in the retiree health plan if they retire from active service no earlier than their Social Security normal retirement age, which varies from 65 to 67 based on the year of birth. In addition, the employee must have at least 25 continuous years of service with the Company immediately preceding retirement. However, any active employee who was at least age 65 as of January 1, 1995, does not have to meet the 25 years of service requirement. The accumulated post-retirement benefit obligation at January 1, 1995, was $517,599, which the Company elected to amortize over 20 years. The Company reserves the right to modify, reduce or eliminate these health benefits. The Company has chosen to not offer this post-retirement benefit to individuals entering the employ of the Company after December 31, 2006. Effective January 1, 2012, the Company amended the retiree health plan. This amendment requires that employees who are eligible and enroll in the bank subsidiary s group medical and dental health care plans upon their retirement must enroll in Medicare Parts A, B and D when first eligible upon their retirement from the bank subsidiary. This results in the bank subsidiary s programs being secondary insurance coverage for retired employees and any dependent(s), if applicable, while Medicare Parts A and B will be their primary coverage, and Medicare Part D will be the sole and exclusive prescription drug benefit plan for retired employees. This amendment reduced the accumulated post-retirement benefit obligation by $3,799,308 as of December 31, 2011. Effective January 1, 2014, the Company amended the retiree health plan. This amendment reduces the age for eligibility to 60 for those employees meeting all other eligibility requirements. This amendment increased the accumulated post-retirement benefit obligation by $1,150,229 as of December 31, 2013.

The following is a summary of the components of the net periodic post-retirement benefit cost (credit)(in thousands):

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Years Ended December 31,	2014	2013	2012
Service cost	$ 105	$ 55	$ 45
Interest cost	132	82	72
Amortization of net gain	(14)	(2)	(16)
Amortization of prior service credit	(81)	(183)	(203)
Net periodic post-retirement benefit cost (credit)	$ 142	$ (48)	$ (102)

The discount rate used in determining the accumulated post-retirement benefit obligation was 4.00% in 2014, 4.80% in 2013 and 4.00% in 2012. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.00% in 2014. The rate was assumed to decrease gradually to 5.00% for 2022 and remain at that level thereafter. If the health care cost trend rate assumptions were increased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2014, would be increased by 16.45%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have increased by 16.78%. If the health care cost trend rate assumptions were decreased 1.00%, the accumulated post-retirement benefit obligation as of December 31, 2014, would be decreased by 13.02%, and the aggregate of the service and interest cost components of the net periodic post-retirement benefit cost for the year then ended would have decreased by 13.54%.

The following table presents the estimated benefit payments for each of the next five years and in the aggregate for the next five years (in thousands):

2015	$ 222
2016	191
2017	171
2018	147
2019	87
2020-2024	828

The following is a reconciliation of the accumulated post-retirement benefit obligation, which is included in Employee and director benefit plans liabilities (in thousands):

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Accumulated post-retirement benefit obligation as of December 31, 2013	$	2,853
Service cost		105
Interest cost		132
Actuarial loss		544
Benefits paid		(64)
Accumulated post-retirement benefit obligation as of December 31, 2014	$	3,570

The following is a summary of the change in plan assets (in thousands):

		2014		2013		2012
Fair value of plan assets at beginning of year	$		$		$	
Actual return on assets						
Employer contribution		64		90		67
Benefits paid, net		(64)		(90)		(67)
Fair value of plan assets at end of year	$		$		$	

Amounts recognized in the Accumulated Other Comprehensive Income (Loss), net of tax, were (in thousands):

For the year ended December 31,		2014		2013		2012
Net gain (loss)	$	(80)	$	288	$	123
Prior service charge		783		837		1,718
Total accumulated other comprehensive income	$	703	$	1,125	$	1,841

Amounts recognized in the accumulated post-retirement benefit obligation and other comprehensive income (loss) were (in thousands):

For the year ended December 31,		2014
Unrecognized actuarial loss	$	557
Amortization of prior service cost		81
Total accumulated other comprehensive loss	$	638

The prior service credit that will be recognized in accumulated other comprehensive income during 2015 is $81,381.

NOTE P - FAIR VALUE MEASUREMENTS AND DISCLOSURES:

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record other assets at fair value on a non-recurring basis, such as impaired loans and ORE. These non-recurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used to determine the fair value of financial assets and liabilities.

Cash and Due from Banks

The carrying amount shown as cash and due from banks approximates fair value.

Available for Sale Securities

The fair value of available for sale securities is based on quoted market prices. The Company s available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based by asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. The other source for determining fair value is matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark securities. All of the Company s available for sale securities are Level 2 assets.

Held to Maturity Securities

The fair value of held to maturity securities is based on quoted market prices.

Other Investments

The carrying amount shown as other investments approximates fair value.

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Federal Home Loan Bank Stock

The carrying amount shown as Federal Home Loan Bank Stock approximates fair value.

Loans

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the remaining maturities. The cash flows considered in computing the fair value of such loans are segmented into categories relating to the nature of the contract and collateral based on contractual principal maturities. Appropriate adjustments are made to reflect probable credit losses. Cash flows have not been adjusted for such factors as prepayment risk or the effect of the maturity of balloon notes. The fair value of floating rate loans is estimated to be its carrying value. At each reporting period, the Company determines which loans are impaired. Accordingly, the Company s impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans are non-recurring Level 3 assets.

Other Real Estate

In the course of lending operations, Management may determine that it is necessary to foreclose on the related collateral. Other real estate acquired through foreclosure is carried at fair value, less estimated costs to sell. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the current appraisal is more than one year old and/or the loan balance is more than $200,000, a new appraisal is obtained. Otherwise, the Bank s in-house property evaluator and Management will determine the fair value of the collateral, based on comparable sales, market conditions, Management s plans for disposition and other estimates of fair value obtained from principally independent sources, adjusted for estimated selling costs. Other real estate is a non-recurring Level 3 asset.

Cash Surrender Value of Life Insurance

The carrying amount of cash surrender value of bank-owned life insurance approximates fair value.

Deposits

The fair value of non-interest bearing demand and interest bearing savings and demand deposits is the amount reported in the financial statements. The fair value of time deposits is estimated by discounting the cash flows using current rates for time deposits with similar remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates.

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Federal Funds Purchased and Securities Sold under Agreements to Repurchase

The carrying amount shown as federal funds purchased and securities sold under agreements to repurchase approximates fair value.

Borrowings from Federal Home Loan Bank

The fair value of FHLB fixed rate borrowings is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of FHLB variable rate borrowings is estimated to be its carrying value.

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of December 31, 2014, 2013 and 2012, were as follows (in thousands):

			Fair Value Measurements Using	
	Total	Level 1	Level 2	Level 3
December 31, 2014:				
U.S. Treasuries	$ 29,654	$	$ 29,654	$
U.S. Government agencies	117,989		117,989	
Mortgage-backed securities	35,817		35,817	
States and political subdivisions	31,012		31,012	
Equity securities	650		650	
Total	$ 215,122	$	$ 215,122	$
December 31, 2013:				
U.S. Treasuries	$ 43,648	$	$ 43,648	$
U.S. Government agencies	145,805		145,805	
Mortgage-backed securities	50,326		50,326	
States and political subdivisions	35,011		35,011	
Equity securities	650		650	
Total	$ 275,440	$	$ 275,440	$
December 31, 2012:				
U.S. Treasuries	$ 54,096	$	$ 54,096	$
U.S. Government agencies	149,098		149,098	
Mortgage-backed securities	17,441		17,441	
States and political subdivisions	37,591		37,591	
Equity securities	650		650	
Total	$ 258,876	$	$ 258,876	$

Impaired loans, which are measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2014, 2013 and 2012 were as follows (in thousands):

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		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2014	$ 10,610	$	$	$ 10,610
2013	18,831			18,831
2012	16,030			16,030

Other real estate, which is measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of December 31, 2014, 2013 and 2012 are as follows (in thousands):

		Fair Value Measurements Using		
December 31:	Total	Level 1	Level 2	Level 3
2014	$ 7,646	$	$	$ 7,646
2013	9,630			9,630
2012	7,008			7,008

The following table presents a summary of changes in the fair value of other real estate which is measured using Level 3 inputs (in thousands):

	2014	2013	2012
Balance, beginning of year	$ 9,630	$ 7,008	$ 6,153
Loans transferred to ORE	1,345	4,537	2,576
Sales	(2,068)	(1,188)	(1,568)
Writedowns	(1,261)	(670)	(153)
Insurance proceeds from casualty loss		(57)	
Balance, end of year	$ 7,646	$ 9,630	$ 7,008

The carrying value and estimated fair value of assets and liabilities, by level within the fair value hierarchy, at December 31, 2014, 2013 and 2012, are as follows (in thousands):

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	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
December 31, 2014:					
Financial Assets:					
Cash and due from banks	$ 23,556	$ 23,556	$	$	$ 23,556
Available for sale securities	215,122		215,122		215,122
Held to maturity securities	17,784		17,859		17,859
Other investments	2,962	2,962			2,962
Federal Home Loan Bank stock	2,504		2,504		2,504
Loans, net	353,201			355,004	355,004
Other real estate	7,646			7,646	7,646
Cash surrender value of life insurance	18,145		18,145		18,145
Financial Liabilities:					
Deposits:					
Non-interest bearing	103,607	103,607			103,607
Interest bearing	289,107			289,466	289,466
Federal funds purchased and securities sold under agreements to repurchase	124,206	124,206			124,206
Borrowings from Federal Home Loan Bank	38,708		40,720		40,720

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
December 31, 2013:					
Financial Assets:					
Cash and due from banks	$ 36,264	$ 36,264	$	$	$ 36,264
Available for sale securities	275,440		275,440		275,440
Held to maturity securities	11,142		10,686		10,686
Other investments	3,262	3,262			3,262
Federal Home Loan Bank stock	3,834		3,834		3,834
Loans, net	366,415			369,117	369,117
Other real estate	9,630			9,630	9,630
Cash surrender value of life insurance	17,456		17,456		17,456
Financial Liabilities:					
Deposits:					
Non-interest bearing	107,117	107,117			107,117
Interest bearing	321,441			322,535	322,535
Federal funds purchased and securities sold under agreements to repurchase	139,639	139,639			139,639
Borrowings from Federal Home Loan Bank	77,684		79,051		79,051

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December 31, 2012:					
Financial Assets:					
Cash and due from banks	$ 54,020	$ 54,020	$	$	$ 54,020
Available for sale securities	258,876		258,876		258,876
Held to maturity securities	7,125		7,225		7,225
Other investments	3,450	3,450			3,450
Federal Home Loan Bank stock	2,380		2,380		2,380
Loans, net	422,226			425,627	425,627
Other real estate	7,008			7,008	7,008
Cash surrender value of life insurance	16,861		16,861		16,861
Financial Liabilities:					
Deposits:					
Non-interest bearing	102,609	102,609			102,609
Interest bearing	373,110			376,209	376,209
Federal funds purchased and securities sold under agreements to repurchase	194,234	194,234			194,234
Borrowings from Federal Home Loan Bank	7,912		10,271		10,271

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Peoples Financial Corporation

Biloxi, Mississippi

We have audited the accompanying consolidated statements of condition of Peoples Financial Corporation and subsidiaries (the Company) as of December 31, 2014, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Financial Corporation and subsidiaries as of December 31, 2014, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Atlanta, Georgia

March 18, 2015

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ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9a - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2014, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Management s Report on Internal Controls Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13(a) 15 (f) of the Securities Exchange Act of 1934. In meeting its responsibility, management relies on its accounting and other related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in the Company s financial records and to safeguard the Company s assets from material loss or misappropriation.

Management of the Company, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2014, using the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment included a review of the documentation of controls, evaluations of the design of the internal control system and tests of operating effectiveness of the internal controls. Based on the assessment, management has concluded that the Company had effective internal control over financial reporting as of December 31, 2014.

Chevis C. Swetman
Chairman, President and Chief Executive Officer
March 18, 2015

Lauri A. Wood
Chief Financial Officer
March 18, 2015

ITEM 9b - OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in Sections II, III, VII, VIII and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 22, 2015, which was filed by the Company in definitive form with the Commission on March 18, 2015, is incorporated herein by reference.

The Company s Board of Directors has adopted a Code of Conduct that applies to not only the chief executive officer and the chief financial officer, but also all of the officers, directors and employees of the Company and its subsidiaries. A copy of this Code of Conduct can be found at the Company s internet website at www.thepeoples.com. The Company intends to disclose any amendments to its Code of Conduct, and any waiver from a provision of the Code of Conduct granted to the Company s Chief Executive Officer or Chief Financial Officer on the Company s internet website within five business days following such amendment or waiver. The information contained on or connected to the Company s internet website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report that the Company may file with or furnish to the SEC.

ITEM 11 - EXECUTIVE COMPENSATION

The information in Section VI contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 22, 2015, which was filed by the Company in definitive form with the Commission on March 18, 2015, is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in Sections IV and V contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 22, 2015, which was filed by the Company in definitive form with the Commission on March 18, 2015, is incorporated herein by reference.

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ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in Sections II, IV, V, VI and IX contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 22, 2015, which was filed by the Company in definitive form with the Commission on March 18, 2015, is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in Section XII contained in the Proxy Statement in connection with the Annual Meeting of Shareholders to be held April 22, 2015, which was filed by the Company in definitive form with the Commission on March 18, 2015, is incorporated herein by reference.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Index of Financial Statements:
See Item 8.

(a) 2. Index of Financial Statement Schedules:
All other schedules have been omitted as not applicable or not required or because the information has been included in the financial statements or applicable notes.

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(a) 3. Index of Exhibits:

	Description	Incorporated by Reference to Registration or File Number	Form of Report	Date of Report	Exhibit Number in Report
(3.1)	Articles of Incorporation	0-30050	10/a	6/21/1999	3.1
(3.2)	By-Laws	0-30050	10/a	6/21/1999	3.2
(10.1)	Description of Automobile Plan	0-30050	10-K	12/31/2003	10.1
(10.2)	Directors Deferred Income Plan Agreements	0-30050	10-K	12/31/2003	10.2
(10.3)	Executive Supplemental Income Plan Agreement - Chevis C. Swetman	001-12103	10-Q	9/30/2007	10.2
(10.4)	Executive Supplemental Income Plan Agreement - A. Wes Fulmer	001-12103	10-Q	9/30/2007	10.3
(10.5)	Executive Supplemental Income Plan Agreement - Lauri A. Wood	001-12103	10-Q	9/30/2007	10.4
(10.6)	Split Dollar Agreements	0-30050	10-K	12/31/2003	10.4
(10.7)	Deferred Compensation Plan	001-12103	10-Q	9/30/2007	10.1
(10.8)	Description of Stock Incentive Plan	33-15595	10-K	12/31/2001	10.6
(10.9)	Description of Bonus Plan	001-12103	10-Q	9/30/2010	10.1
(21)	Subsidiaries of the registrant	33-15595	10-K	12/31/1988	22
(23.1)	Consent of Independent Registered Public Accounting Firm - Porter Keadle Moore, LLC*				
(31.1)	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *				
(31.2)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 *				
(32.1)	Certification of Principal Executive Officer				

	Pursuant to 18 U.S.C. ss. 1350*
(32.2)	Certification of Principal Financial Officer Pursuant to 18 U.S.C. ss. 1350*
(101)	The following materials from the Company s 2014 Annual Report to Shareholders, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Condition at December 31, 2014, 2013 and 2012, (ii) Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, (iv) Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2014, 2013 and 2012, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 and (vi) Notes to the Consolidated Financial Statements for the years ended December 31, 2014, 2013 and 2012.*

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEOPLES FINANCIAL CORPORATION

(Registrant)

Date: March 18, 2015

BY: /s/ Chevis C. Swetman

Chevis C. Swetman, Chairman of the Board

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY: /s/ Chevis C. Swetman

Date: March 18, 2015

Chevis C. Swetman, Chairman, President and CEO

(principal executive officer)

BY: /s/ Drew Allen

Date: March 18, 2015

Drew Allen, Director

BY: /s/ Rex E. Kelly

Date: March 18, 2015

Rex E. Kelly, Director

BY: /s/ Dan Magruder

Date: March 18, 2015

Dan Magruder, Director

BY: /s/ Jeffrey H. O Keefe

Date: March 18, 2015

Jeffrey H. O Keefe, Director

BY: /s/ Lauri A. Wood

Date: March 18, 2015

Lauri A. Wood, Chief Financial Officer

(principal financial and accounting officer)

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